

NORTH DAKOTA
RETIREMENT AND INVESTMENT OFFICE
BISMARCK, NORTH DAKOTA

Examination for the Years Ended
June 30, 2008 and 2007

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Table Of Contents

| | Page |
|--|-------|
| Independent Auditor's Report | 1-2 |
| Report on Compliance and Other Matters and on Internal Control Over Financial Reporting | |
| Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards..... | 3-4 |
| Management's Discussion and Analysis..... | 5-8 |
| Basic Financial Statements: | |
| Fund Financial Statements | |
| Statements of Net Assets-Fiduciary Funds | 9 |
| Statements of Changes in Net Assets-Fiduciary Funds..... | 10 |
| Notes to the Financial Statements | 11-32 |
| Required Supplementary Information: | |
| Schedule of Funding Progress - North Dakota Teachers' Fund for Retirement..... | 33 |
| Schedule of Employer Contributions - North Dakota Teachers' Fund for Retirement..... | 33 |
| Combining and Individual Fund Financial Statements: | |
| Combining Statement of Net Assets - Investment Trust Funds - Fiduciary Funds | 34-37 |
| Combining Statement of Changes in Net Assets - Investment Trust Funds - Fiduciary Funds | 38-41 |
| Supplementary Information: | |
| Pension and Investment Trust Fund – Schedule of Administrative Expenses | 42 |
| Pension Trust Fund – Schedule of Consultant Expenses..... | 43 |
| Schedules of Appropriation – Budget Basis..... | 44 |
| Special Comments Requested by the Legislative Audit and Fiscal Review Committee | 45-46 |
| Audit Committee Letter | 47-48 |



INDEPENDENT AUDITOR'S REPORT

Governor John Hoeven
The Legislative Assembly
Steve Cochrane, Executive Director
State Investment Board
Teachers' Fund For Retirement Board
North Dakota Retirement and Investment Office

We have audited the accompanying financial statements of the fiduciary funds of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as listed in the table of contents, as of and for the years ended June 30, 2008 and 2007. These financial statements are the responsibility of RIO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of RIO, are intended to present the financial position and the changes in plan net assets of only that portion of the fiduciary funds of the State of North Dakota that is attributable to the transactions of RIO. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2008 and 2007, and the changes in its financial position and plan net assets, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The actuary for the North Dakota Teachers' Fund for Retirement has determined the Fund's unfunded actuarial accrued liability is approximately \$421 and \$459 million at June 30, 2008 and 2007, respectively. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. The actuary has determined that the current statutory contribution rates will amortize the unfunded actuarial accrued liability over 57 years, based on the current actuarial assumptions, unless there are sufficient actuarial gains in the future to offset the recent investment losses.

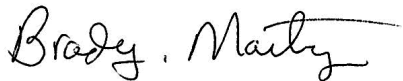
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary funds of RIO as of June 30, 2008 and 2007, and the respective changes in plan net assets where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of RIO as of June 30, 2008 and 2007, and the results of the operations of such funds for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information shown on page 33 is presented for the purpose of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules are the responsibility of RIO's management. The Schedules of Funding Progress and Employer Contributions and the supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 5 through 8 are not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated October 13, 2008, on our consideration of RIO's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise RIO's basic financial statements and on the combining and individual fund financial statements. The Supplementary Information shown on pages 42 through 44 is presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in our audit of the basic, combining and individual fund financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic, combining and individual fund financial statements taken as a whole.

A handwritten signature in cursive script, reading "Brady Martz".

BRADY, MARTZ & ASSOCIATES, P.C.

October 13, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governor John Hoeven
The Legislative Assembly
Steve Cochrane, Executive Director
State Investment Board
Teachers' Fund For Retirement Board
North Dakota Retirement and Investment Office

We have audited the financial statements of the fiduciary funds of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered RIO's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RIO's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RIO's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects RIO's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of RIO's financial statements that is more than inconsequential will not be prevented or detected by RIO's internal control.

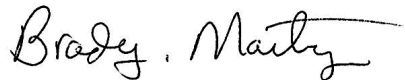
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by RIO's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RIO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, the Legislative Audit and Fiscal Review Committee, and other state officials, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Brady Martz".

BRADY MARTZ & ASSOCIATES, P.C.

October 13, 2008

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion & Analysis

As of June 30, 2008 and 2007

Our discussion and analysis of the ND Retirement and Investment Office's (RIO) financial performance provides an overview of RIO's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

Total net assets decreased in the fiduciary funds by nearly \$235 million or 4.2% due mostly to net losses in the investment markets.

Additions in the fiduciary funds for the year were actually negative due to the net decrease in fair value of investments. Net investment loss was \$248.7 million. Total contributions were \$70.6 million, an increase of 6.3% over 2007.

Deductions in the fiduciary funds increased over the prior year by \$9 million or 8.6%. This increase represented a rise in the total number of retirees drawing retirement benefits from the pension fund as well as an increase in the retirement salaries of new retirees.

The ND Teachers' Fund for Retirement's (TFFR) funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2008, the funded ratio was approximately 81.9%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of four parts – *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for the investment trust funds. The basic financial statements include fund financial statements that focus on individual parts of RIO's activities (fiduciary funds).

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our investment trust funds, each of which are added together and presented in single columns in the basic financial statements.

Fund Financial Statements

The fund financial statements provide detailed information about RIO's activities. Funds are accounting devices that RIO uses to keep track of specific sources of funding and spending for particular purposes.

RIO uses fiduciary funds as RIO is the trustee, or fiduciary, for TFFR (a pension plan) and SIB (investment trust funds). RIO is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of RIO's fiduciary activities are reported in a statement of net assets and a statement of changes in net assets.

FINANCIAL ANALYSIS

RIO's fiduciary funds total assets as of June 30, 2008, were \$5.6 billion and were comprised mainly of investments and invested securities lending collateral. Total assets decreased over \$627 million or 10% from the prior year primarily due to losses in the financial markets during the fiscal year.

The accompanying notes are an integral part of these financial statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion & Analysis

As of June 30, 2008 and 2007

Total liabilities as of June 30, 2008, were \$201 million and were comprised mostly of securities lending collateral. Total liabilities decreased \$392 million or 66.1% from the prior year primarily due to a decrease in securities lending collateral at year-end.

RIO's fiduciary funds total net assets were \$5.4 billion at the close of fiscal year 2008.

ND Retirement and Investment Office Net Assets – Fiduciary Funds (In Millions)

| | <u>2008</u> | <u>2007</u> | <u>Total % Change</u> |
|--------------------------|------------------------|------------------------|---------------------------|
| Assets | | | |
| Investments | \$ 5,384 | \$ 5,619 | -4.2% |
| Sec. Lending Collateral | 194 | 585 | -66.9% |
| Receivables | 30 | 32 | -4.4% |
| Cash & Other | 12 | 11 | 9.0% |
| Total Assets | <u>5,620</u> | <u>6,247</u> | -10.0% |
| Liabilities | | | |
| Accounts Payable | 7 | 8 | -10.8% |
| Sec. Lending Collateral | 194 | 585 | -66.9% |
| Total Liabilities | <u>201</u> | <u>593</u> | -66.1% |
| Total Net Assets | <u><u>\$ 5,419</u></u> | <u><u>\$ 5,654</u></u> | -4.2% |

ND Retirement and Investment Office Changes in Net Assets – Fiduciary Funds (In Millions)

| | <u>2008</u> | <u>2007</u> | <u>Total % Change</u> |
|---|---------------------------|-------------------------|---------------------------|
| Additions: | | | |
| Contribution Income | \$ 70.60 | \$ 66.40 | 6.3% |
| Investment Income | (247.12) | 832.31 | -129.7% |
| Total Additions | <u>(176.52)</u> | <u>898.71</u> | -119.6% |
| Deductions | 113.93 | 104.96 | 8.5% |
| Net inc (ded) from unit transactions | <u>55.41</u> | <u>(63.90)</u> | -186.7% |
| Total inc (ded) in net assets | <u><u>\$ (235.04)</u></u> | <u><u>\$ 729.85</u></u> | -132.2% |

The accompanying notes are an integral part of these financial statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

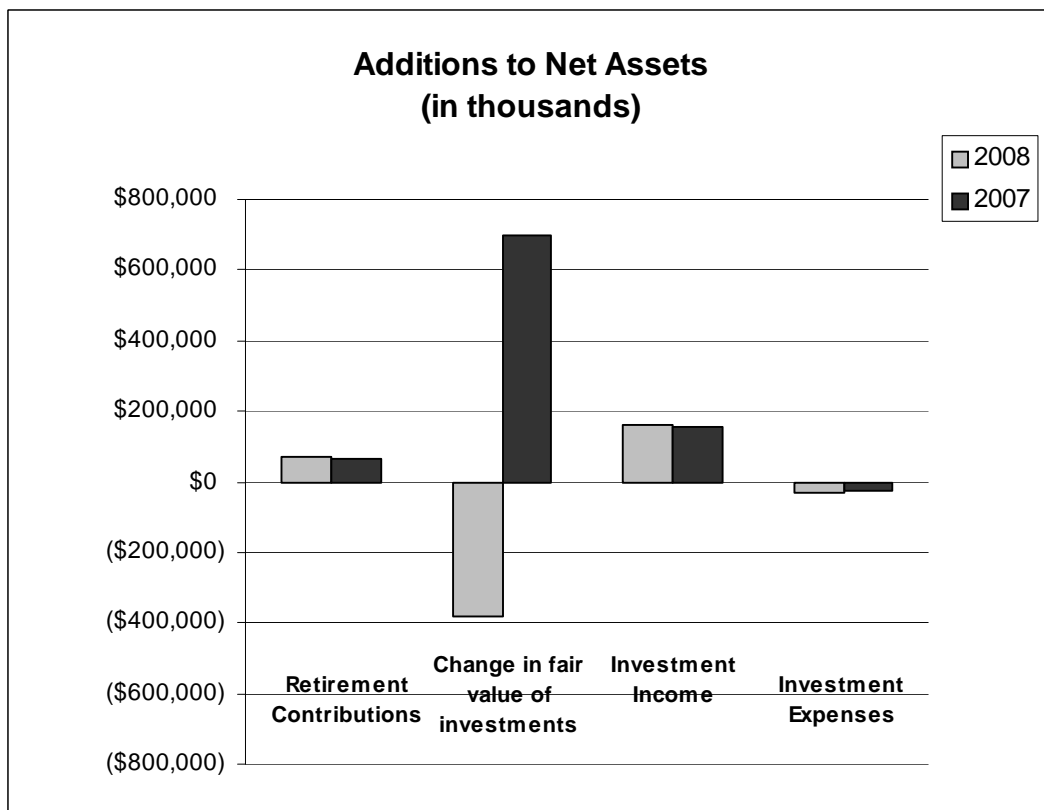
Management's Discussion & Analysis

As of June 30, 2008 and 2007

Statement of Changes in Net Assets – Additions

Contributions to the pension trust fund increased by \$4.2 million or 6.3% over the previous fiscal year. The net change in fair value of investments in the fiduciary funds was a decrease of \$380.9 million in fiscal year 2008 following a positive change of \$700.4 million the previous year.

Investment income, including net income from securities lending activities, increased by \$6.0 million from last year. Investment expenses increased by \$4.1 million or 16.7% mainly due to the timing of incentive-based fees related to certain timber investments. This fee will fluctuate over the life of the investment based on the continued performance of the manager.



Statement of Changes in Net Assets – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by \$6.7 million or 6.7% during the fiscal year ended June 30, 2008. This was due to an increase in the total number of retirees in the plan as well as an increased retirement salary which the benefits are based upon.

Refunds increased significantly in fiscal year 2008. The 2007 legislature approved a bill allowing employees of the Department of Career and Technical Education covered under TFFR to make an election to transfer to the Public Employees Retirement System (PERS). Approximately \$3.2 million in member account balances and/or actuarially determined values were transferred to PERS and these are

The accompanying notes are an integral part of these financial statements.

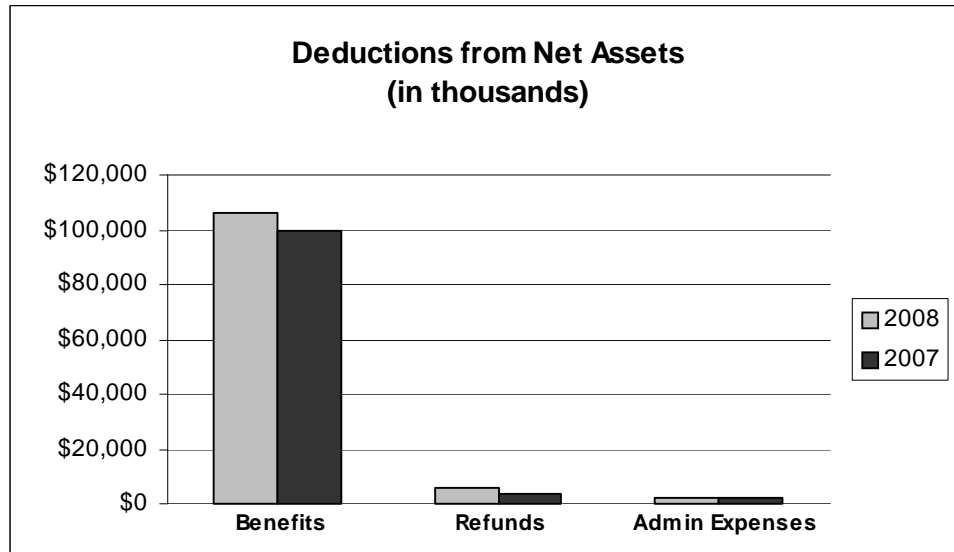
NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion & Analysis

As of June 30, 2008 and 2007

shown as refunds on the financial statements. Total refunds for the year, including those transfers, were \$5.5 million versus \$3.3 million the previous fiscal year; a 65.2% increase.

Administrative expenses increased by just over \$80,000, or 4.3%, due mainly to legislatively approved salary increases for state employees.



CONCLUSION

Fiscal Year 2008 was highly influenced by tightening in the general credit market as well as declining economic conditions. This resulted in many global equities and non-governmental bonds losing value, as investors shunned assets presumed to have risk.

Within the SIB's investment program, the investment trust funds are invested within their policy guidelines and seek to add investment return to their expected benchmark return objectives over multi-year periods. As global economies and financial markets continue to adjust to changing conditions, the SIB remains vigilant to identify investment opportunities which will benefit the plans over the long term.

TFFR's funded ration improved in 2008 due to the 5 year smoothing of asset gains and losses. However, long term projections show the plan's funding level is expected to decline should TFFR experience another year of investment losses. While 2007 legislation was passed to improve TFFR's long term financial status, additional statutory changes to enhance revenue may need to be considered in the future.

CONTACTING RIO FINANCIAL MANAGEMENT

This financial report is designed to provide our Boards, our membership, our clients and the general public with a general overview of RIO's finances and to demonstrate RIO's accountability for the money we receive. If you have any questions about this report or need additional information, contact the North Dakota Retirement and Investment Office, PO Box 7100, Bismarck, ND 58507-7100.

The accompanying notes are an integral part of these financial statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Statement of Net Assets

Fiduciary Funds

As of June 30, 2008 and 2007

| | Pension Trust | | Investment Trust | |
|--|------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| ASSETS: | | | | |
| Investments, at fair value | | | | |
| Equities | \$ - | \$ - | \$ 25,968,232 | \$ 29,149,500 |
| Equity pool | 1,038,055,015 | 1,260,494,121 | 1,291,115,204 | 1,501,115,243 |
| Fixed income | - | - | 13,658,848 | 15,383,953 |
| Fixed income pool | 459,221,747 | 429,624,787 | 1,837,537,823 | 1,707,756,245 |
| Real estate pool | 218,557,672 | 212,437,075 | 214,544,096 | 205,201,801 |
| Alternative investments | 101,316,753 | 87,610,571 | 101,957,749 | 85,898,100 |
| Cash and cash pool | 4,421,123 | 16,588,981 | 77,722,742 | 68,344,985 |
| Total investments | 1,821,572,310 | 2,006,755,535 | 3,562,504,694 | 3,612,849,827 |
| Invested securities lending collateral | 21,349,349 | 143,933,101 | 172,541,068 | 441,048,728 |
| Receivables: | | | | |
| Investment income | 7,971,796 | 8,366,495 | 14,278,826 | 15,301,708 |
| Contributions | 8,065,995 | 8,058,323 | - | - |
| Miscellaneous | 5,361 | 3,064 | 5,102 | 4,011 |
| Total receivables | 16,043,152 | 16,427,882 | 14,283,928 | 15,305,719 |
| Due from other state agency | 38 | 112 | 9 | 23 |
| Cash and cash equivalents | 11,156,236 | 9,950,883 | 80,255 | 81,972 |
| Equipment & Software (net of depr.) | 555,989 | 789,382 | - | - |
| Total assets | 1,870,677,074 | 2,177,856,895 | 3,749,409,954 | 4,069,286,269 |
| LIABILITIES: | | | | |
| Accounts payable | 58,308 | 48,835 | 21,804 | 16,676 |
| Investment expenses payable | 2,634,849 | 3,603,855 | 4,138,715 | 4,109,302 |
| Securities lending collateral | 21,349,349 | 143,933,101 | 172,541,068 | 441,048,728 |
| Accrued expenses | 514,856 | 483,601 | 36,114 | 36,231 |
| Capital lease payable | - | 1,210 | - | - |
| Miscellaneous payable | - | - | 7,896 | 6,341 |
| Due to other state agencies | 6,301 | 8,881 | 729 | 1,258 |
| Total liabilities | 24,563,663 | 148,079,483 | 176,746,326 | 445,218,536 |
| NET ASSETS: | | | | |
| Held in trust for pension benefits | | | | |
| (See Schedule of Funding Progress on Page 33) | 1,846,113,411 | 2,029,777,412 | - | - |
| Held in trust for external investment pool participants: | | | | |
| Pension pool | - | - | 2,002,929,586 | 2,104,537,811 |
| Insurance pool | - | - | 1,529,753,733 | 1,474,613,291 |
| Held in trust for individual investment account | - | - | 39,980,309 | 44,916,631 |
| Total net assets | \$ 1,846,113,411 | \$ 2,029,777,412 | \$ 3,572,663,628 | \$ 3,624,067,733 |
| Each participant unit is valued at \$1.00 | | | | |
| Participant units outstanding | | | 3,572,663,628 | 3,624,067,733 |

The accompanying notes are an integral part of these financial statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Statements of Changes in Net Assets

Fiduciary Funds

For the Years Ended June 30, 2008 and 2007

| | Pension Trust | | Investment Trust | |
|---|------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Additions: | | | | |
| Contributions: | | | | |
| Employer contributions | \$ 33,683,550 | \$ 31,865,466 | \$ - | \$ - |
| Member contributions | 33,237,677 | 31,865,772 | - | - |
| Purchased service credit | 3,636,528 | 2,629,006 | - | - |
| Interest and penalties | 15,634 | 1,855 | - | - |
| Total contributions | 70,573,389 | 66,362,099 | - | - |
| Investment income: | | | | |
| Net change in fair value of investments | (178,531,370) | 308,580,419 | (202,384,896) | 391,832,839 |
| Interest, dividends and other income | 48,889,586 | 48,309,521 | 112,082,263 | 107,039,898 |
| Less: investment expenses | (129,641,784) | 356,889,940 | (90,302,633) | 498,872,737 |
| | 11,359,487 | 10,547,809 | 17,388,018 | 14,080,766 |
| Net investment income | (141,001,271) | 346,342,131 | (107,690,651) | 484,791,971 |
| Securities lending activity: | | | | |
| Securities lending income | 2,918,949 | 7,254,776 | 12,029,518 | 24,706,273 |
| Less securities lending expenses | 2,558,737 | 6,830,921 | 10,816,998 | 23,953,319 |
| Net securities lending income | 360,212 | 423,855 | 1,212,520 | 752,954 |
| Total additions | (70,067,670) | 413,128,085 | (106,478,131) | 485,544,925 |
| Deductions: | | | | |
| Benefits paid to participants | 105,764,195 | 98,784,161 | - | - |
| Partial lump-sum distributions | 692,139 | 953,744 | - | - |
| Refunds | 5,500,476 | 3,328,931 | - | - |
| Administrative charges | 1,639,521 | 1,592,060 | 333,264 | 300,296 |
| Total deductions | 113,596,331 | 104,658,896 | 333,264 | 300,296 |
| Net change in net assets resulting from operations | (183,664,001) | 308,469,189 | (106,811,395) | 485,244,629 |
| Unit transactions at net asset value of \$1 per unit: | | | | |
| Purchase of units | - | - | 316,098,641 | 140,877,109 |
| Redemption of units | - | - | (260,691,351) | (204,776,903) |
| Net change in assets and units resulting from unit transactions | - | - | 55,407,290 | (63,899,794) |
| Total change in net assets | (183,664,001) | 308,469,189 | (51,404,105) | 421,344,835 |
| Net assets: | | | | |
| Beginning of year, as restated | 2,029,777,412 | 1,721,308,223 | 3,624,067,733 | 3,202,722,898 |
| End of year | \$ 1,846,113,411 | \$ 2,029,777,412 | \$ 3,572,663,628 | \$ 3,624,067,733 |

The accompanying notes are an integral part of these financial statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The North Dakota Retirement and Investment Office (RIO) is charged with providing and coordinating the administrative activities of the Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board (SIB).

RIO is an agency of the State of North Dakota operating through the legislative authority of North Dakota Century Code (NDCC) Chapter 54-52.5 and is considered part of the State of North Dakota financial reporting entity and included in the State of North Dakota's Comprehensive Annual Financial Report.

For financial reporting purposes, RIO has included all funds, and has considered all potential component units for which RIO is financially accountable, and other organizations for which the nature and significance of their relationship with RIO are such that exclusion would cause RIO's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of RIO to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on RIO.

Based upon these criteria, there are no component units to be included within RIO as a reporting entity and RIO is part of the State of North Dakota as a reporting entity.

B) Fund Financial Statement

All activities of RIO are pension and investment trust funds and are shown in the fiduciary fund financial statements.

C) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of RIO are reported using the economic resources measurement focus and the accrual basis of accounting.

This measurement focus includes all assets and liabilities associated with the operations of the fiduciary funds on the statements of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Fiduciary Fund

A pension trust fund and investment trust funds have been established to account for the assets held by RIO in a trustee capacity for TFFR and as an agent for other governmental units or funds which have placed certain investment assets under the management of SIB. The SIB manages two external investment pools and one individual investment account. The two external investment pools consist of a pension pool and insurance pool. SIB manages the investments of the North Dakota Public Employees Retirement System, Job Service of North Dakota, Bismarck City Employees and Police, and City of Fargo

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Employees pension plans in the pension pool. The investments of Workforce Safety and Insurance, State Fire & Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, Veterans Cemetery (transferred out in fiscal year 2008), North Dakota Association of Counties Fund, North Dakota Association of Counties Program Savings Fund, Risk Management, Risk Management Workers Comp, PERS Group Insurance, City of Bismarck Deferred Sick Leave, City of Fargo FargoDome Permanent Fund, Cultural Endowment Fund and Budget Stabilization Fund are managed in the insurance pool.

PERS Retiree Health investments are managed by SIB in an individual investment account. RIO has no statutory authority over, nor responsibility for, these investment trust funds other than the investment responsibility provided for by statute or through contracts with the individual agencies. Those pool participants that are required to participate according to statute are: Public Employees Retirement System, Workforce Safety and Insurance, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, Veterans Cemetery (transferred out in fiscal year 2008), Risk Management, Risk Management Workers Comp, Cultural Endowment Fund and Budget Stabilization Fund.

RIO follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

Pension and Investment Trust Funds are accounted for using the accrual basis of accounting. Member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the NDCC.

D) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates. RIO utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E) Budgetary Process

RIO operates through a biennial appropriation, which represents appropriations recommended by the Governor and presented to the General Assembly (the Assembly) at the beginning of each legislative session. The Assembly enacts RIO's budget through passage of a specific appropriation bill. The State of North Dakota's budget is prepared principally on a modified accrual basis. The Governor has line item veto power over all legislation, subject to legislative override.

Once passed and signed, the appropriation bill becomes RIO's financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, or referendum action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate an intent to reject the money. The Emergency Commission may authorize pass-through federal funds from one state agency to another. The Emergency Commission may authorize the transfer of expenditure authority between appropriated line items, however RIO has specific authority as a special fund to transfer between the contingency line item and other line items. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the NDCC section 54-44.1-11.

RIO does not use encumbrance accounting. The legal level of budgetary control is at the agency, appropriation and expenditure line item level. RIO does not formally budget revenues and it does not budget by fund. The statement of revenues, expenditures and changes in fund balances - budget and actual is not prepared because revenues are not budgeted.

F) Capital Assets and Depreciation

Capital asset expenditures greater than \$5,000 are capitalized at cost in accordance with Section 54-27-21 of the NDCC. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

| | <u>Years</u> |
|------------------------|--------------|
| Office equipment | 5 |
| Furniture and fixtures | 5 |

G) Investments

NDCC Section 21-10-07 states that the SIB shall apply the prudent investor rule when investing funds under its supervision. The prudent investor rule means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The pension fund belonging to TFFR and investment trust funds attributable to the Bismarck City Employee Pension Plan, the Bismarck City Police Pension Plan, Fargo City Employee Pension Plan, Job Service of North Dakota, and the Public Employees Retirement System (PERS) must be invested exclusively for the benefit of their members. All investments are made in accordance with the respective fund's long-term investment objectives and performance goals.

Pooled Investments

Several agencies whose investments are under the supervision of the SIB participate in pooled investments. The agencies transfer money into the investment pools and receive an appropriate percentage ownership of the pooled portfolio based upon fair value. All activities of the investment pools are allocated to the agencies based upon their respective ownership percentages. Each participant unit is valued at \$1.00 per unit.

Investment Valuation and Income Recognition

Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The market values for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that value. International securities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at June 30. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investment securities, including timberland, is based on appraisals plus fiscal year-to-date capital transactions. Publicly traded alternative investments are valued based on quoted market prices. When not readily available, alternative investment securities are valued using current estimates of fair value from the investment manager. Such valuations consider variables such as financial performance of the issuer, comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, withdrawal restrictions, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the estimated fair value may differ from the values that would have been used had a ready market existed.

The net increase (decrease) in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Securities Lending

GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions," establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

The State Investment Board (SIB) lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The SIB has contracted with a third party securities lending agent (Agent) to lend the SIB's securities portfolios. The Agent lends securities of the type on loan at June 30, 2008, for collateral in the form of cash or other securities at 102% of the loaned securities market value plus accrued interest for domestic securities and 105% of the loaned securities market value plus accrued interest for international securities. The collateral for the loans is maintained at 100% per the contractual requirements. As of June 30, 2008, the market value of the SIB's securities on loan totaled \$192,667,996. As of June 30, 2008, the total amount of cash and non-cash collateral related to these lent securities was \$196,015,966. As of June 30, 2008, the Fund has no credit risk exposure to borrowers because the amounts the SIB owes the borrowers exceed the amounts the borrowers owe the SIB.

The Average Duration of the collateral investments as of June 30, 2008, was 6 days. The Average Weighted Maturity of collateral investments as of June 30, 2008, was 174 days. The interest rate sensitivity (duration) of the securities on loan matched the duration of the collateral investments.

The Agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay income distributions on them. All open securities loans can be terminated on demand by either the SIB or the borrower. All term securities loans can be terminated with five days notice by either the SIB or the borrower. Cash collateral is invested in accordance with investment guidelines approved by the SIB. The SIB cannot pledge or sell collateral securities received unless the borrower defaults.

Derivative Securities

SIB's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use Treasury futures and options, S & P 500 index futures and options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. SIB's policy with respect to these derivatives is that their use may not increase the credit, market or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H) Accumulated Leave

Annual leave is a part of permanent employees' compensation as set forth in Section 54-06-14 of the NDCC. Employees earn leave based on tenure of employment. Sick leave is also part of permanent employees' compensation as set forth in Section 54-52-04 of the NDCC. Accrued leave amounted to \$94,499 and \$92,753 at June 30, 2008 and 2007, respectively. The current portions of accrued leave amounted to \$71,335 and \$71,839 at June 30, 2008 and 2007, respectively, and are included in accrued expenses of the Fiduciary Funds in the statements of net assets. Changes in accrued leave for the years ended June 30, 2008 and 2007 consisted of the following:

| | |
|-----------------------|------------------|
| Balance July 1, 2006 | \$ 99,005 |
| Additions | 72,201 |
| Deductions | <u>(78,453)</u> |
| Balance June 30, 2007 | 92,753 |
| Additions | 75,884 |
| Deductions | <u>(74,138)</u> |
| Balance June 30, 2008 | <u>\$ 94,499</u> |

NOTE 2 CASH AND CASH EQUIVALENTS

Custodial Credit Risk

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, "[a]ll state funds ... must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provisions.

Pension Trust Fund

Deposits held by the Pension Trust Fund at June 30, 2008 and 2007 were deposited in the Bank of North Dakota. At June 30, 2008 and 2007, the carrying amount of TFFR's deposits was \$11,040,507 and \$9,950,883, respectively, and the bank balance was \$11,071,043 and \$9,969,709, respectively. The difference results from checks outstanding or deposits not yet processed by the bank. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

Investment Trust Funds

Certificates of deposit and an insurance trust cash pool are recorded as investments and have a cost and carrying value of \$160,562,842 and \$154,086,565 at June 30, 2008 and 2007, respectively. In addition these funds carry cash and cash equivalents totaling \$73,357 and \$81,972 at June 30, 2008 and 2007, respectively. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 3 INVESTMENTS

The investment policy of the SIB is governed by NDCC 21-10. The SIB shall apply the prudent investor rule in investing for funds under its supervision. The "prudent investor rule" means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The SIB does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

At June 30, 2008 and 2007, the following tables show the investments by investment type and maturity (expressed in thousands).

| 2008 | | | | | |
|-------------------------------|-----------------------|---------------------|-------------------|-------------------|-----------------------|
| | Total Market Value | Less than 1 Year | 1 - 6 Years | 6 - 10 Years | More Than 10 Years |
| Asset Backed Securities | \$ 41,040 | \$ - | \$ 918 | \$ 1,403 | \$ 38,719 |
| Bank Loans | 22,887 | 1,450 | 16,905 | 4,532 | - |
| Commercial Mortgage-Backed | 21,281 | - | 135 | - | 21,146 |
| Commercial Paper | - | - | - | - | - |
| Corporate Bonds | 664,627 | 12,294 | 203,956 | 241,048 | 207,329 |
| Corporate Convertible Bonds | 31,661 | 607 | 13,035 | - | 18,019 |
| Government Agencies | 61,575 | 5,005 | 25,845 | 15,868 | 14,857 |
| Government Bonds | 148,374 | 6,024 | 77,771 | 34,407 | 30,172 |
| Government Mortgage-Backed | 88,617 | 2 | 824 | 1,561 | 86,230 |
| Hedge Multi-Strategy | 83,441 | 83,441 | - | - | - |
| Index Linked Government Bonds | 126,720 | - | 36,951 | 40,889 | 48,880 |
| Municipal/Provincial Bonds | 12,221 | - | 2,019 | 5,313 | 4,889 |
| Non-Government Backed CMOs | 64,969 | 505 | 164 | 600 | 63,700 |
| Short Term Bills and Notes | 14,613 | 14,613 | - | - | - |
| Pooled Investments | 503,527 | 77,591 | 63,063 | 362,664 | 209 |
| Total Debt Securities | <u>\$ 1,885,553</u> | <u>\$201,532</u> | <u>\$ 441,586</u> | <u>\$ 708,285</u> | <u>\$ 534,150</u> |

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 3 INVESTMENTS – Continued

| 2007 | Total Market Value | Less than 1 Year | 1 - 6 Years | 6 - 10 Years | More Than 10 Years |
|-------------------------------|-----------------------|---------------------|-------------------|-------------------|-----------------------|
| Asset Backed Securities | \$ 46,638 | \$ - | \$ 237 | \$ 1,321 | \$ 45,080 |
| Bank Loans | - | - | - | - | - |
| Commercial Mortgage-Backed | 18,611 | - | 239 | - | 18,372 |
| Commercial Paper | 1,053 | 1,053 | - | - | - |
| Corporate Bonds | 612,836 | 12,393 | 197,379 | 175,181 | 227,883 |
| Corporate Convertible Bonds | 47,989 | 217 | 18,317 | 394 | 29,061 |
| Government Agencies | 75,573 | 2,138 | 42,908 | 15,897 | 14,630 |
| Government Bonds | 219,422 | 17,156 | 111,517 | 34,160 | 56,589 |
| Government Mortgage-Backed | 111,676 | - | 1,770 | 1,743 | 108,163 |
| Hedge Multi-Strategy | - | - | - | - | - |
| Index Linked Government Bonds | 145,983 | - | 47,177 | 45,120 | 53,686 |
| Municipal/Provincial Bonds | 13,349 | 1,145 | 2,480 | 6,353 | 3,371 |
| Non-Government Backed CMOs | 54,725 | - | 806 | - | 53,919 |
| Short Term Bills and Notes | 15,162 | 15,162 | - | - | - |
| Pooled Investments | 429,388 | - | 88,370 | 322,143 | 18,875 |
| Total Debt Securities | <u>\$ 1,792,405</u> | <u>\$ 49,264</u> | <u>\$ 511,200</u> | <u>\$ 602,312</u> | <u>\$ 629,629</u> |

In the table above, the market values of inflation indexed bonds are reflected in the columns based on their stated maturity dates. The principal balances of these bonds are adjusted every six months based on the inflation index for that period.

Some investments are more sensitive to interest rate changes than others. Variable and floating rate collateralized mortgage obligations (CMOs), asset-backed securities (ABS), interest-only and principal-only securities are examples of investments whose fair values may be highly sensitive to interest rate changes.

Interest-only (IO) and principal-only (PO) strips are transactions, which involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which may result from a decline in interest rates. The SIB held IOs valued at \$1.1 million and \$525,000, and POs valued at \$1.2 and \$2.8 million at June 30, 2008 and 2007 respectively. The SIB has no policy regarding IO or PO strips.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Board maintains a highly diversified portfolio of debt securities encompassing a wide range of credit ratings. Each debt securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit the manager may invest. These ranges include investment grade and high yield categories. The following tables present the SIB's ratings as of June 30, 2008 and 2007 (expressed in thousands).

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

2008

| | Total Market Value | S & P Credit Rating* | | | | | | | | Not Rated |
|-------------------------------|-----------------------|----------------------|------------|------------|------------|------------|-----------|-----------|--------|--------------|
| | | AAA | AA | A | BBB | BB | B | CCC | D | |
| Asset Backed Securities | \$ 41,040 | \$ 11,356 | \$ 2,038 | \$ 558 | \$ 3,670 | \$ 21,303 | \$ 2,011 | \$ 62 | \$ 42 | \$ - |
| Bank Loans | 22,887 | - | - | - | 2,059 | 14,988 | 5,166 | 434 | 240 | - |
| Commercial Mortgage Backed | 21,281 | 20,498 | 560 | 223 | - | - | - | - | - | - |
| Corporate Bonds | 664,627 | 9,210 | 38,680 | 129,861 | 290,020 | 98,089 | 74,130 | 24,637 | - | - |
| Corporate Convertible Bonds | 31,661 | - | - | 4,935 | 6,897 | 12,357 | 3,696 | 3,776 | - | - |
| Government Agencies | 43,199 | 39,191 | - | 1,302 | 2,500 | 206 | - | - | - | - |
| Government Bonds | 142,842 | 106,333 | - | 25,204 | 8,209 | 3,096 | - | - | - | - |
| Government Mortgage Backed | 485 | 485 | - | - | - | - | - | - | - | - |
| Hedge Multi-Strategy | 83,441 | - | 83,441 | - | - | - | - | - | - | - |
| Index Linked Government Bonds | 123,153 | 123,153 | - | - | - | - | - | - | - | - |
| Municipal/Provincial Bonds | 12,221 | 4,747 | 2,259 | - | 3,521 | 1,694 | - | - | - | - |
| Non-Government Backed CMOs | 64,969 | 44,144 | 12,121 | 7,354 | 570 | 641 | 139 | - | - | - |
| Pooled Investments | 503,527 | 243,253 | 111,367 | 77,711 | 58,860 | 12,166 | 170 | - | - | - |
| Total Credit Risk | | | | | | | | | | |
| Debt Securities | 1,755,333 | \$ 602,370 | \$ 250,466 | \$ 247,148 | \$ 376,306 | \$ 164,540 | \$ 85,312 | \$ 28,909 | \$ 282 | \$ - |
| US Gov't & Agencies | 130,220 | | | | | | | | | |
| Total Debt Securities | <u>\$ 1,885,553</u> | | | | | | | | | |

2007

| | Total Market Value | S & P Credit Rating* | | | | | | | | Not Rated |
|-------------------------------|-----------------------|----------------------|------------|------------|------------|------------|------------|-----------|------|--------------|
| | | AAA | AA | A | BBB | BB | B | CCC | D | |
| Asset Backed Securities | \$ 46,638 | \$ 13,123 | \$ 1,502 | \$ 1,873 | \$ 2,344 | \$ 457 | \$ 2,344 | \$ 120 | \$ - | \$ 24,875 |
| Commercial Mortgage Backed | 18,611 | 17,768 | 605 | 238 | - | - | - | - | - | - |
| Commercial Paper | 524 | - | - | 524 | - | - | - | - | - | - |
| Corporate Bonds | 612,753 | 9,789 | 28,793 | 96,871 | 249,030 | 91,101 | 88,865 | 19,358 | - | 28,946 |
| Corporate Convertible Bonds | 47,989 | - | 1,619 | 12,620 | 7,397 | 8,324 | 7,330 | 4,249 | - | 6,450 |
| Government Agencies | 53,761 | 52,032 | - | 1,515 | - | 214 | - | - | - | - |
| Government Bonds | 218,903 | 176,526 | 163 | 24,881 | 5,594 | 10,719 | 959 | - | - | 61 |
| Government Mortgage Backed | 500 | 500 | - | - | - | - | - | - | - | - |
| Index Linked Government Bonds | 120,741 | 120,741 | - | - | - | - | - | - | - | - |
| Municipal/Provincial Bonds | 13,349 | 4,128 | 2,218 | - | 5,858 | 1,145 | - | - | - | - |
| Non-Government Backed CMOs | 54,318 | 24,516 | 13,371 | 14,907 | 1,237 | 189 | 98 | - | - | - |
| Short Term Bills and Notes | 340 | - | 340 | - | - | - | - | - | - | - |
| Pooled Investments | 429,388 | 230,381 | 103,898 | - | 85,618 | 3,305 | 6,186 | - | - | - |
| Total Credit Risk | | | | | | | | | | |
| Debt Securities | 1,617,815 | \$ 649,504 | \$ 152,509 | \$ 153,429 | \$ 357,078 | \$ 115,454 | \$ 105,782 | \$ 23,727 | \$ - | \$ 60,332 |
| US Gov't & Agencies | 174,590 | | | | | | | | | |
| Total Debt Securities | <u>\$ 1,792,405</u> | | | | | | | | | |

* Majority of debt securities rated by S & P, however some were determined by Moody's, Fitch or manager determined.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 3 INVESTMENTS - Continued

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the SIB does not have a formal investment policy governing foreign currency risk, the SIB does manage its exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios to limit foreign currency and security risk. The SIB's exposure to foreign currency risk is presented in the following tables as of June 30, 2008 and 2007 (expressed in thousands).

| | 2008 | | | |
|--|--------------------|-------------------|-------------------|-------------------|
| Currency | Short-Term | Debt | Equity | Total |
| Australian dollar | \$ (6,327) | \$ 10,547 | \$ 15,621 | \$ 19,841 |
| Brazilian real | 3 | 7,162 | 4,420 | 11,585 |
| British pound sterling | (35,289) | 6,070 | 60,486 | 31,267 |
| Canadian dollar | (19,451) | 4,209 | 22,028 | 6,786 |
| Colombian peso | - | - | - | - |
| Danish krone | (1,221) | - | 3,431 | 2,210 |
| Euro | (58,596) | 3,382 | 122,535 | 67,321 |
| Hong Kong dollar | (1,326) | - | 5,594 | 4,268 |
| Hungarian forint | (180) | 222 | - | 42 |
| Iceland krona | - | 3,411 | - | 3,411 |
| Indonesian rupiah | 21 | 4,094 | 30 | 4,145 |
| Japanese yen | (50,151) | - | 96,105 | 45,954 |
| Malaysian ringgit | - | 7,221 | - | 7,221 |
| Mexican peso | (162) | 8,569 | 61 | 8,468 |
| New Zealand dollar | (134) | 4,038 | - | 3,904 |
| Norwegian krone | (1,319) | 1,255 | 6,027 | 5,963 |
| Polish zloty | (395) | 5,897 | 83 | 5,585 |
| Singapore dollar | (1,077) | 9,960 | 3,477 | 12,360 |
| South African rand | (35) | 3,598 | 175 | 3,738 |
| South Korean won | - | 936 | 308 | 1,244 |
| Swedish krona | (3,266) | 4,768 | 6,868 | 8,370 |
| Swiss franc | (20,006) | - | 35,445 | 15,439 |
| Thai baht | - | - | - | - |
| Turkish lira | 1,565 | - | - | 1,565 |
| International commingled funds (various currencies) | - | 94,880 | 360,310 | 455,190 |
| Total international investment securities | <u>\$(197,346)</u> | <u>\$ 180,219</u> | <u>\$ 743,004</u> | <u>\$ 725,877</u> |

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 3 INVESTMENTS - Continued

| Currency | 2007 | Short-Term | Debt | Equity | Total |
|---|------|---------------------|-------------------|-------------------|-------------------|
| Australian dollar | | \$ (5,476) | \$ 10,061 | \$ 22,243 | \$ 26,828 |
| Brazilian real | | - | 7,020 | - | 7,020 |
| British pound sterling | | (41,390) | 6,903 | 100,949 | 66,462 |
| Canadian dollar | | (17,664) | 5,616 | 20,008 | 7,960 |
| Colombian peso | | - | 716 | - | 716 |
| Danish krone | | (991) | - | 3,329 | 2,338 |
| Euro | | (79,468) | 10,887 | 195,544 | 126,963 |
| Hong Kong dollar | | (5,581) | - | 12,706 | 7,125 |
| Hungarian forint | | (330) | 385 | - | 55 |
| Iceland krona | | - | 1,017 | - | 1,017 |
| Indonesian rupiah | | - | 4,765 | - | 4,765 |
| Japanese yen | | (43,841) | 164 | 122,529 | 78,852 |
| Malaysian ringgit | | - | 4,484 | - | 4,484 |
| Mexican peso | | (278) | 8,504 | - | 8,226 |
| New Zealand dollar | | (129) | 3,613 | - | 3,484 |
| Norwegian krone | | (1,309) | 162 | 5,435 | 4,288 |
| Polish zloty | | (284) | 6,992 | - | 6,708 |
| Singapore dollar | | (1,166) | 9,979 | 5,531 | 14,344 |
| South African rand | | (1) | 4,491 | 115 | 4,605 |
| South Korean won | | 10 | 1,071 | 2,357 | 3,438 |
| Swedish krona | | (1,066) | 4,717 | 10,601 | 14,252 |
| Swiss franc | | (17,707) | - | 36,597 | 18,890 |
| Thai baht | | (2) | - | - | (2) |
| Turkish lira | | | | | |
| International commingled funds (various currencies) | | - | 88,139 | 364,280 | 452,419 |
| Total international investment securities | | <u>\$ (216,673)</u> | <u>\$ 179,686</u> | <u>\$ 902,224</u> | <u>\$ 865,237</u> |

Alternative Investments

In relation to investment asset allocation within the pension pool, the State Investment Board (SIB) considers alternative investments to be any investments that do not fit into any of the other specific asset classes available for investment. Examples of investments the SIB has included in the alternative investments asset class are private equity, venture capital and distressed debt. All of the investments in this asset class are in the form of limited partnerships with specific time horizons and capital commitments.

Private Equity — Private Equity investments are typically private interests in corporations across different areas of the capital structure and in different stages of the corporations' development via limited partnership vehicles. Private Equity investments are illiquid and long term in nature (10-12 years), typically held until maturity. Private Equity portfolios generally have a "J-Curve Effect" whereby there are low to negative returns in the initial years due to the payment of investment management fees and initial funding of investments made by the General Partner during a period when investments are typically carried at cost and returns have not been realized. To diversify the program, Private Equity investments are made across business cycles, vintage years, and different strategies.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 3 INVESTMENTS - Continued

Venture Capital — these include investments in companies in a range of stages of development from start-up/seed stage, early stage, and later/expansion stage. Investments are typically made in years one through six and returns typically occur in years four through ten.

Distressed Debt — these include investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments, mortgages and bank loans.

The AICPA expands the definition of Alternative Investments for the purpose of performing audits. The expanded definition includes investments for which a readily determinable fair value does not exist (that is, investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications, the exchanges, or Nasdaq). These types of investments can be held within any of the asset classes used by the SIB based on underlying portfolio holdings and analysis of risk and return relationships. These investments can be structured in different ways, including limited partnerships, limited liability companies, common trusts and mutual funds. Some are closed-ended with a specific life and capital commitment while others are open-ended with opportunity for ad hoc contributions or withdrawals and termination upon proper notice.

Commingled/Mutual Funds — These types of funds are generally open-ended funds and may be utilized in equities or fixed income asset classes. They are funds made up of underlying securities that have readily available market values (publically traded stocks or bonds). The SIB owns units of these funds rather than the individual securities. Contributions or withdrawals from these funds can be done as needed.

Private Equity — See definition above. The SIB has determined that private equity investments add diversification opportunities within asset classes that traditionally hold public equity investments. Therefore, there are private equity investments within equity asset classes as well as the alternative investments asset class.

Distressed Debt — See definition above. The SIB has determined that certain distressed debt investments add diversification and return opportunities within traditional fixed income asset classes. Therefore, there are distressed debt investments within fixed income asset classes as well as the alternative investments asset class.

Mezzanine Debt — This strategy is a hybrid of debt and equity financing. It is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to senior debt. The SIB utilizes this strategy, through a limited partnership structure, in its high yield bond allocation.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 3 INVESTMENTS - Continued

Equity Long/Short — This strategy is a combination of long and short positions, primarily in publicly traded equities. The SIB utilizes this strategy in its US equity allocations.

Portable Alpha Strategies — This strategy separates alpha from beta in a portfolio by investing in securities that differ from the market index from which their beta is derived. Alpha is the return achieved over and above the return that results from the correlation between the portfolio and the market (beta). This strategy involves investing in areas that have little to no correlation with the beta of the portfolio. The SIB utilizes this strategy in its US equity and fixed income allocations.

Real Estate and Real “Tangible” Assets — These investments are intended to provide allocations to tangible assets that are expected to be inflation protected and provide performance above the inflation rate as indicated by the CPI. Investments are generally structured as limited partnerships or limited liability companies. Investments in Real Estate and Real Assets include:

Real Estate — includes investments in private vehicles through limited partnerships or commingled vehicles that have an ownership interest in direct real estate properties. The investment strategies may include “value added” strategies, which derive their return from both income and appreciation, “opportunistic”, which derive their return primarily through appreciation, and “alternative” which invest in less traditional types of property. Both domestic and international real estate funds are utilized. The SIB has a dedicated asset class for these types of investments.

Timberland — includes investments in limited liability companies that have an ownership interest in properties where the value of the property is derived mainly from income-producing timber but also from the “higher and better use” value of the underlying land. The SIB has analyzed this type of investment and determined that its risk and return profile is very similar to bonds. Therefore, they have chosen to include timberland in fixed income asset allocations to provide additional diversification and return options.

Infrastructure — includes investments in limited partnerships that have an ownership interest in transportation assets such as toll roads, tunnels and bridges; and regulated assets such as electricity transmission, gas and oil distribution and wastewater collection. Other possible investments would include communication assets and social infrastructure. Similar to timberland, the SIB has included these types of investments in fixed income asset allocations.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 4 SECURITIES LENDING

The following represents the balances relating to the securities lending transactions at June 30, 2008 and 2007 (expressed in thousands).

June 30, 2008

| Securities Lent | Underlying Securities | Non-Cash Collateral Value | Cash Collateral Investment Value |
|---|----------------------------------|--|---|
| Lent for cash collateral: | | | |
| US agency securities | \$ - | \$ - | \$ - |
| US government securities | 171,586 | - | 171,724 |
| US corporate fixed income securities | 3,503 | - | 3,593 |
| Global government fixed income securities | - | - | - |
| US equities | 5,900 | - | 6,336 |
| Global equities | 11,679 | - | 12,237 |
| Lent for non-cash collateral: | | | |
| US agency securities | - | - | - |
| US government securities | - | 2,126 | - |
| US corporate fixed income securities | - | - | - |
| US equities | - | - | - |
| Global equities | - | - | - |
| Total | <u>\$ 192,668</u> | <u>\$ 2,126</u> | <u>\$ 193,890</u> |

June 30, 2007

| Securities Lent | Underlying Securities | Non-Cash Collateral Value | Cash Collateral Investment Value |
|---|----------------------------------|--|---|
| Lent for cash collateral: | | | |
| US agency securities | \$ 22,098 | \$ - | \$ 22,500 |
| US government securities | 250,091 | - | 254,991 |
| US corporate fixed income securities | 97,417 | - | 99,754 |
| Global government fixed income securities | 12,947 | - | 13,565 |
| US equities | 92,427 | - | 94,526 |
| Global equities | 94,963 | - | 99,645 |
| Lent for non-cash collateral: | | | |
| US agency securities | 1,088 | 1,111 | - |
| US government securities | 34,224 | 34,950 | - |
| US corporate fixed income securities | 8,724 | 8,880 | - |
| US equities | 4,930 | 5,065 | - |
| Global equities | 3,141 | 3,299 | - |
| Total | <u>\$ 622,050</u> | <u>\$ 53,305</u> | <u>\$ 584,981</u> |

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 5 CAPITAL ASSETS

| | July 1, 2006 | Additions | Retirements | June 30, 2007 | Additions | Retirements | June 30, 2008 |
|-------------------------------|---------------------|-----------|-------------|-------------------|-----------|-------------|-------------------|
| Office Equipment | \$ 27,996 | \$ - | \$ - | \$ 27,996 | \$ 11,441 | \$ (5,526) | \$ 33,911 |
| Software | 1,213,500 | - | - | 1,213,500 | - | - | 1,213,500 |
| Less accumulated depreciation | (205,767) | (246,348) | - | (452,115) | (244,833) | 5,526 | (691,422) |
| | <u>\$ 1,035,729</u> | | | <u>\$ 789,381</u> | | | <u>\$ 555,989</u> |

NOTE 6 STATE AGENCY TRANSACTIONS

Due From/To Other State Agencies

Amounts due from/to other state agencies are as follows as of June 30, 2008 and 2007:

| Due From: | 2008 | 2007 |
|-----------------------------------|-----------------|------------------|
| Bank of North Dakota | <u>\$ 47</u> | <u>\$ 135</u> |
| Due To: | | |
| Information Technology Department | \$ 6,254 | \$ 5,424 |
| Attorney General's Office | 663 | 1,578 |
| Secretary of State | 10 | - |
| Office of Management & Budget | 103 | 3,137 |
| Central Duplicating | - | - |
| Total due to other state agencies | <u>\$ 7,030</u> | <u>\$ 10,139</u> |

These balances are a result of a time lag between the dates that services are provided, the payments are made, and the transactions are entered into the accounting system.

NOTE 7 OPERATING LEASES

RIO leases office space under an operating lease, which expired on June 30, 2007. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled \$73,871 and \$72,548 for fiscal 2008 and 2007. RIO entered into a new lease for office space effective July 1, 2007. Minimum payments under this lease for fiscal 2009 are \$72,397.

NOTE 8 CAPITAL LEASES

RIO is obligated under a lease accounted for as a capital lease in its pension trust fund. The liability is reduced by payments of principal, with a portion of the payment allocated to interest expense. This lease was paid off in fiscal year 2008.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 9 CHANGES IN NONCURRENT LIABILITIES

Changes in noncurrent liabilities for the years ended June 30, 2008 and 2007, are summarized as follows:

| | Beginning Balance 7/1/2007 | Additions | Reductions | Ending Balance 6/30/2008 | Amounts Due Within One Year |
|------------------------|----------------------------------|------------------|--------------------|--------------------------------|-----------------------------------|
| Capital Leases Payable | \$ 1,210 | \$ - | \$ (1,210) | \$ - | \$ - |
| Accrued Annual Leave | 92,753 | 75,884 | (74,138) | 94,499 | 71,335 |
| | <u>\$ 93,963</u> | <u>\$ 75,884</u> | <u>\$ (75,348)</u> | <u>\$ 94,499</u> | <u>\$ 71,335</u> |

| | Beginning Balance 7/1/2006 | Additions | Reductions | Ending Balance 6/30/2007 | Amounts Due Within One Year |
|------------------------|----------------------------------|------------------|--------------------|--------------------------------|-----------------------------------|
| Capital Leases Payable | \$ 5,662 | \$ - | \$ (4,452) | \$ 1,210 | \$ 1,210 |
| Accrued Annual Leave | 99,005 | 72,201 | (78,453) | 92,753 | 71,839 |
| | <u>\$104,667</u> | <u>\$ 72,201</u> | <u>\$ (82,905)</u> | <u>\$ 93,963</u> | <u>\$ 73,049</u> |

The Pension Trust Fund generally liquidates the capital lease. Pension and Investment Trust Funds liquidate the accrued annual leave.

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

General

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, survivor and disability benefits. The costs to administer the TFFR plan are financed out of TFFR assets.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

Membership

As of June 30, 2008 and 2007, the number of participating employer units was 235 and 244 consisting of the following:

| | 2008 | 2007 |
|----------------------------|------|------|
| Public School Districts | 188 | 196 |
| County Superintendents | 12 | 13 |
| Special Education Units | 19 | 18 |
| Vocational Education Units | 3 | 3 |
| Other | 13 | 14 |
| Total | 235 | 244 |

TFFR's membership consisted of the following:

| | 2008 | 2007 |
|---|-------|-------|
| Retirees and beneficiaries currently receiving benefits | 6,317 | 6,077 |
| Terminated employees - vested | 1,459 | 1,439 |
| Terminated employees - nonvested | 229 | 142 |
| Total | 8,005 | 7,658 |
| Current employees | | |
| Vested | 8,262 | 8,355 |
| Nonvested | 1,299 | 1,244 |
| Total | 9,561 | 9,599 |

Investments

Current investment guidelines set by TFFR's board specify the percentage of assets to be invested in various types of investments (equities, fixed income securities, real estate, private equity, and cash). The overall long-term investment objective for TFFR is to match or exceed an expected rate of return of 8.93%, but at a minimum is not less than the 8% actuarially assumed rate of return determined percentage required to pay future benefits. Long-term performance goals are set and evaluated by the boards of SIB and TFFR for each type of investment.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

Realized Gains and Losses

Realized gains and losses on sales of investments are components of net appreciation in fair value of investments and are computed as described in Note 1. For the years ended June 30, 2008 and 2007, TFFR had net realized gains of \$37,457,768 and \$121,686,471 respectively.

Investment Expenses

Investment expenses consist of fees charged by RIO for investment managers and investment-related service fees from The Northern Trust Company, the Bank of North Dakota, and certain other investment advisors. All TFFR expenses are paid out of TFFR assets.

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 7.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 7.75% (8.25% effective July 1, 2008, until the fund reaches 90% funded ratio on actuarial basis) of the Teachers' salary.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A nonvested member who terminates covered employment must claim a refund of contributions paid before 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

Pension Benefits

Effective July 1, 2008, for purposes of determining pension benefits, members are classified as those with service credit on file as of July 1, 2008, (Tier 1), and those newly employed and returning refunded members on or after July 1, 2008, (Tier 2).

Tier 1

A Tier 1 member is entitled to receive full benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

with Social Security benefits. Members may also qualify for benefits calculated under other formulas. All members may be eligible for legislative increases in monthly benefits.

Tier 2 (Effective July 1, 2008)

A Tier 2 member is entitled to receive full benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 90. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas. Members may be eligible for legislative increases in monthly benefits.

Survivor and Disability Benefits

Survivor benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated one year of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and assuming the member has a minimum of 20 years of credited service. There is no actuarial reduction for reason of disability retirement.

Funded Status and Funding Progress

The funded status of the Defined Benefit Plan as of the most recent actuarial valuation date is as follows (in millions):

| Actuarial Valuation Date July 1 | Actuarial Value of Plan Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Annual Covered Payroll |
|---------------------------------------|--------------------------------------|--|---|-----------------|------------------------------|--|
| 2008 | \$ 1,909.5 | \$ 2,330.6 | \$ 421.1 | 81.9% | \$ 417.7 | 100.8% |

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear funding trend information as obtained from TFFR's independent actuary's annual valuation report.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the plan is becoming financially stronger or weaker. Generally, the greater the percentage the stronger the retirement plan. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage the stronger the retirement plan.

The accompanying schedule of employer contributions, presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC). The ARC is actuarially determined in accordance with the parameters of GASB Statement 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Additional information as of the latest actuarial valuation follows:

| | |
|---|--------------------------------|
| Valuation Date: | July 1, 2008 |
| Actuarial Cost Method: | Entry age normal |
| Amortization Method: | Level percentage of payroll |
| Amortization Period for GASB 25 ARC (**): | 30-year open period |
| Asset Valuation Method: | 5 year smoothed market |
| Actuarial Assumptions: | |
| Investment Rate of Return (*) | 8.00% |
| Projected Salary Increases (*) | 4.50% to 14.00% |
| Cost-of-Living Adjustments | None |

(*) Includes inflation at 3.00%

(**) The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the sum of (i) the employer normal costs, and (ii) an amount necessary to amortize the UAAL as a level percentage of payroll over an open 30-year amortization period, or (b) the 8.25% statutory employer contribution rate. Payroll is assumed to increase at 2.00% per annum.

The following updated actuarial assumptions were adopted by the TFFR board.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

Updated actuarial assumptions effective July 1, 2005, consisted of the following:

1. The 1994 Uninsured Pensioner Mortality Table set back three years for males and two years for females.
2. Rates of retirement assumptions for members eligible to retire modified.
3. Changed termination rates to 80% of withdrawal rates based on age and service, for causes other than death, disability, or retirement.
4. For salary rate increases, assumptions are an inflation rate of 3.00% plus productivity increase rate of 1.50%, plus step-rate/promotional increase as modified.
5. Payroll growth rate of 2.00%, with an assumption that does not include any allowance for future increase in the number of members.

Benefit change for new hires employed after July 1, 2008, made at July 1, 2007:

1. Members who join TFFR on or after July 1, 2008, called Tier 2 members, will be subject to the following benefit provisions:
 - Vesting will require five years of service, not three years
 - Unreduced retirement will be available when the member's age plus years of service is at least 90, not 85
 - Unreduced retirement at age 65 will require five years of service, not three years
 - Reduced retirement at age 55 will require five years of service, not three years
 - The member's Final Average Compensation will be defined as a five-year average, not a three-year average

Change in definition of the Annual Required Contribution:

The GASB Annual Required Contribution (ARC) for this plan is defined to be the greater of the 8.25% statutory contribution rate or the sum of (a) the employer normal cost, and (b) the amount needed to amortize the Unfunded Actuarial Accrued Liability as a level percentage of payroll over 30 years. For fiscal year 2005 and prior years, the ARC was defined using a 20-year amortization with a level percentage of payroll.

NOTE 11 PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Permanent employees of RIO participate in PERS, which is also an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Comprehensive Annual Financial Report. PERS is a cost-sharing multiple-employer defined benefit public employee retirement system that provides retirement, disability and death benefits to eligible employees and beneficiaries. PERS is administered in accordance with NDCC Chapter 54-52. PERS issues a publicly available financial report that may be obtained by writing to North Dakota Public Employees Retirement System, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501 or by calling 1-800-803-7377.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements- Continued

June 30, 2008 and 2007

NOTE 11 PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) - Continued

The financial statements of PERS are prepared using the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable in accordance with the terms of PERS.

RIO is required to contribute to PERS at an actuarially determined rate for permanent employees. The current contribution rate is 8.12% of annual covered payroll as established by the NDCC. RIO's contributions to PERS for the years ended June 30, 2008, 2007, and 2006, were \$73,133, \$68,366, and \$64,818, equal to the required contributions for each year plus a 1% contribution for retiree health benefits.

NOTE 12 RELATED PARTIES

As stated in Note 1, RIO is an agency of the State of North Dakota; as such, other agencies of the state are related parties.

NOTE 13 COMMITMENTS

The State Investment Board has at June 30, 2008 committed to fund certain alternative investment partnerships for an amount of \$971.2 million. Funding of \$636.8 million has been provided leaving an unfunded commitment of approximately \$334.4 million.

NOTE 14 NEW PRONOUNCEMENTS

GASB Statement No. 50, "*Pension Disclosures-an amendment of GASB Statements No. 25 and No.27*", was issued in May 2007, and implemented for the fiscal year beginning July 1, 2007. This statement modifies the financial reporting requirements for pensions and enhances information disclosed in the notes to the financial statements or presented as required supplementary information.

NOTE 15 SUBSEQUENT EVENTS

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, SIB managed (which includes TFFR Plan assets) investments have likely incurred a significant decline in fair value since June 30, 2008.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Required Supplementary Information

June 30, 2008 and 2007

Schedule of Funding Progress North Dakota Teachers' Fund for Retirement (Dollars in Millions)

| Actuarial Valuation Date July 1 | Actuarial Value of Plan Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Annual Covered Payroll |
|---------------------------------------|--------------------------------------|--|---|-----------------|------------------------------|--|
| 2003 | \$ 1,438.4 | \$ 1,690.3 | \$ 251.9 | 85.1% | \$ 367.9 | 68.5% |
| 2004 | 1,445.6 | 1,800.4 | 354.8 | 80.3% | 376.5 | 94.2% |
| 2005 | 1,469.7 | 1,965.2 | 495.5 | 74.8% | 386.6 | 128.2% |
| 2006 | 1,564.0 | 2,073.9 | 509.9 | 75.4% | 390.1 | 130.7% |
| 2007 | 1,750.1 | 2,209.3 | 459.2 | 79.2% | 401.3 | 114.4% |
| 2008 | 1,909.5 | 2,330.6 | 421.1 | 81.9% | 417.7 | 100.8% |

Schedule of Employer Contributions North Dakota Teachers' Fund for Retirement

| Fiscal Year | Required Contribution | Percentage Contributed |
|----------------|--------------------------|---------------------------|
| 2003 | \$ 28,850,725 | 100.0% |
| 2004 | 34,186,080 | 86.7% |
| 2005 | 44,471,740 | 68.3% |
| 2006 | 48,747,189 | 63.9% |
| 2007 | 50,532,462 | 63.1% |
| 2008 | 44,114,585 | 76.4% |

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
Combining Statement of Net Assets-Investment Trust Funds
Fiduciary Funds

As of June 30, 2008

| | Pension Pool Participants | | | | | Insurance Pool Participants | | | | | |
|---|---|---|---|-----------------------------------|---|--------------------------------------|----------------------------|------------------|---|----------------------------------|-------------------------------|
| | Public Employees Retirement System | Bismarck City Employee Pension Plan | Bismarck City Police Pension Plan | Job Service of North Dakota | City of Fargo Employee Pension Plan | Workforce Safety and Insurance | State Fire & Tornado | State Bonding | Petroleum Tank Release Compensation Fund | Insurance Regulatory Trust | Cultural Endowment Fund |
| Assets: | | | | | | | | | | | |
| Investments: | | | | | | | | | | | |
| Equities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Equity pool | 934,134,393 | 20,683,404 | 10,631,455 | 33,461,205 | 15,817,138 | 252,005,517 | 8,481,055 | 838,324 | 2,820,710 | 1,151,103 | 142,303 |
| Fixed income | - | - | - | - | - | - | - | - | - | - | - |
| Fixed income pool | 644,103,751 | 23,097,878 | 9,277,106 | 56,211,468 | 10,444,283 | 906,858,202 | 14,445,705 | 1,415,135 | 4,348,404 | 1,457,427 | 104,429 |
| Real estate pool | 121,924,794 | 5,375,053 | 2,232,500 | - | 1,595,296 | 83,402,474 | - | - | - | - | 13,979 |
| Alternative Investments | 99,234,751 | 303,817 | 734,527 | - | 1,684,654 | - | - | - | - | - | - |
| Cash and cash pool | 9,799,104 | 177,709 | 97,628 | 105,055 | 122,633 | 8,442,930 | 2,656,655 | 263,002 | 1,326,385 | 1,471,935 | 8,447 |
| Total investments | 1,809,196,793 | 49,637,861 | 22,973,216 | 89,777,728 | 29,664,004 | 1,250,709,123 | 25,583,415 | 2,516,461 | 8,495,499 | 4,080,465 | 269,158 |
| Invested securities lending collateral | 29,156,196 | 917,267 | 378,078 | 2,781,230 | 477,898 | 136,798,103 | 821,154 | 81,315 | 250,026 | 84,775 | 6,303 |
| Investment income receivable | 3,833,432 | 82,703 | 44,180 | 230,971 | (6,444) | 8,442,876 | 116,214 | 28,561 | 57,934 | 6,961 | 35 |
| Operating Cash | 31,831 | - | - | - | - | 45,423 | 602 | 452 | 445 | 136 | 152 |
| Miscellaneous receivable | 2,765 | - | - | - | - | 1,963 | 40 | 4 | 14 | 6 | - |
| Due from other state agency | 5 | - | - | - | - | 4 | - | - | - | - | - |
| Total assets | 1,842,221,022 | 50,637,831 | 23,395,474 | 92,789,929 | 30,135,458 | 1,395,997,492 | 26,521,425 | 2,626,793 | 8,803,918 | 4,172,343 | 275,648 |
| Liabilities: | | | | | | | | | | | |
| Investment expenses payable | 2,276,912 | 66,462 | 30,269 | 91,934 | 36,681 | 1,481,102 | 39,241 | 3,903 | 12,375 | 4,363 | 354 |
| Securities lending collateral | 29,156,196 | 917,267 | 378,078 | 2,781,230 | 477,898 | 136,798,103 | 821,154 | 81,315 | 250,026 | 84,775 | 6,303 |
| Accounts payable | 11,815 | - | - | - | - | 8,388 | 170 | 16 | 59 | 27 | 2 |
| Accrued expenses | 19,647 | - | - | - | - | 14,147 | 293 | 30 | 105 | 30 | 3 |
| Miscellaneous payable | - | 1,370 | 636 | 2,509 | 829 | - | - | - | - | - | - |
| Due to other state agency | 395 | - | - | - | - | 280 | 6 | 1 | 2 | 1 | - |
| Total liabilities | 31,464,965 | 985,099 | 408,983 | 2,875,673 | 515,408 | 138,302,020 | 860,864 | 85,265 | 262,567 | 89,196 | 6,662 |
| Net assets held for external investment pool participants | \$ 1,810,756,057 | \$ 49,652,732 | \$ 22,986,491 | \$ 89,914,256 | \$ 29,620,050 | \$ 1,257,695,472 | \$ 25,660,561 | \$ 2,541,528 | \$ 8,541,351 | \$ 4,083,147 | \$ 268,986 |
| Each participant unit is valued at \$1.00 | | | | | | | | | | | |
| Participant units outstanding | 1,810,756,057 | 49,652,732 | 22,986,491 | 89,914,256 | 29,620,050 | 1,257,695,472 | 25,660,561 | 2,541,528 | 8,541,351 | 4,083,147 | 268,986 |

The accompanying notes are an integral part of these statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
Combining Statement of Net Assets-Investment Trust Funds
Fiduciary Funds

As of June 30, 2008

| | Insurance Pool Participants | | | | | | | | | | |
|---|-----------------------------|------------------------------|---------------------------------|---|----------------------|---------------------------|--------------------------------------|-------------------|------------------------------|-------------------------------|------------------|
| | Risk Management | Risk Management Workers Comp | ND Association of Counties Fund | ND Association of Counties Program Savings Fund | PERS Group Insurance | Budget Stabilization Fund | City of Bismarck Deferred Sick Leave | Health Care Trust | City of Fargo FargoDome Fund | Individual Investment Account | Total |
| Assets: | | | | | | | | | | | |
| Investments: | | | | | | | | | | | |
| Equities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 25,968,232 | \$ 25,968,232 |
| Equity pool | 1,018,171 | 1,054,641 | 594,408 | 345,037 | - | - | 225,663 | - | 7,710,677 | - | 1,291,115,204 |
| Fixed income | - | - | - | - | - | - | - | - | - | 13,658,848 | 13,658,848 |
| Fixed income pool | 2,351,498 | 1,907,002 | 470,681 | 416,865 | - | 151,887,600 | 533,063 | - | 8,207,326 | - | 1,837,537,823 |
| Real estate pool | - | - | - | - | - | - | - | - | - | - | 214,544,096 |
| Alternative Investments | - | - | - | - | - | - | - | - | - | - | 101,957,749 |
| Cash and cash pool | 185,642 | 94,366 | 58,779 | 41,265 | 4,391,120 | 45,986,033 | 41,024 | 2,284,976 | 168,054 | - | 77,722,742 |
| Total investments | 3,555,311 | 3,056,009 | 1,123,868 | 803,167 | 4,391,120 | 197,873,633 | 799,750 | 2,284,976 | 16,086,057 | 39,627,080 | 3,562,504,694 |
| Invested securities lending collateral | 131,410 | 105,814 | 28,528 | 24,053 | - | - | 29,659 | - | 469,259 | - | 172,541,068 |
| Investment income receivable | 47,430 | 5,654 | 880 | 509 | - | 998,889 | 988 | - | 7,437 | 379,616 | 14,278,826 |
| Operating Cash | 195 | 389 | - | - | - | 350 | - | 280 | - | - | 80,255 |
| Miscellaneous receivable | 6 | 6 | - | - | - | 295 | - | 3 | - | - | 5,102 |
| Due from other state agency | - | - | - | - | - | - | - | - | - | - | 9 |
| Total assets | 3,734,352 | 3,167,872 | 1,153,276 | 827,729 | 4,391,120 | 198,873,167 | 830,397 | 2,285,259 | 16,562,753 | 40,006,696 | 3,749,409,954 |
| Liabilities: | | | | | | | | | | | |
| Investment expenses payable | 5,483 | 4,648 | 1,672 | 1,231 | - | 32,950 | 1,346 | - | 22,507 | 25,282 | 4,138,715 |
| Securities lending collateral | 131,410 | 105,814 | 28,528 | 24,053 | - | - | 29,659 | - | 469,259 | - | 172,541,068 |
| Accounts payable | 23 | 26 | - | - | - | 1,263 | - | 15 | - | - | 21,804 |
| Accrued expenses | 42 | 45 | - | - | - | 1,642 | - | 130 | - | - | 36,114 |
| Miscellaneous payable | - | - | 250 | 250 | 250 | - | 250 | - | 447 | 1,105 | 7,896 |
| Due to other state agency | 1 | 1 | - | - | - | 42 | - | - | - | - | 729 |
| Total liabilities | 136,959 | 110,534 | 30,450 | 25,534 | 250 | 35,897 | 31,255 | 145 | 492,213 | 26,387 | 176,746,326 |
| Net assets held for external investment pool participants | \$ 3,597,393 | \$ 3,057,338 | \$ 1,122,826 | \$ 802,195 | \$ 4,390,870 | \$ 198,837,270 | \$ 799,142 | \$ 2,285,114 | \$ 16,070,540 | \$ 39,980,309 | \$ 3,572,663,628 |
| Each participant unit is valued at \$1.00 | | | | | | | | | | | |
| Participant units outstanding | 3,597,393 | 3,057,338 | 1,122,826 | 802,195 | 4,390,870 | 198,837,270 | 799,142 | 2,285,114 | 16,070,540 | 39,980,309 | 3,572,663,628 |

The accompanying notes are an integral part of these statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
Combining Statement of Net Assets-Investment Trust Funds
Fiduciary Funds
As of June 30, 2007

| | Pension Pool Participants | | | | Insurance Pool Participants | | | | | | |
|---|---|---|---|-----------------------------------|--------------------------------------|----------------------------|------------------|---|----------------------------------|----------------------|-------------------------------|
| | Public Employees Retirement System | Bismarck City Employee Pension Plan | Bismarck City Police Pension Plan | Job Service of North Dakota | Workforce Safety and Insurance | State Fire & Tornado | State Bonding | Petroleum Tank Release Compensation Fund | Insurance Regulatory Trust | Veterans Cemetery | Cultural Endowment Fund |
| Assets: | | | | | | | | | | | |
| Investments: | | | | | | | | | | | |
| Equities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Equity pool | 1,106,441,078 | 24,370,875 | 12,597,989 | 38,820,490 | 292,537,865 | 10,242,377 | 1,005,725 | 3,585,437 | 1,186,864 | - | 153,027 |
| Fixed income | - | - | - | - | - | - | - | - | - | - | - |
| Fixed income pool | 607,352,057 | 21,461,867 | 8,683,576 | 55,378,242 | 911,430,811 | 15,417,951 | 1,426,826 | 4,872,866 | 1,384,721 | - | 99,246 |
| Real estate pool | 114,219,432 | 5,033,894 | 2,106,988 | - | 83,827,121 | - | - | - | - | - | 14,366 |
| Alternative Investments | 85,207,940 | 293,616 | 396,544 | - | - | - | - | - | - | - | - |
| Cash and cash pool | 19,621,766 | 357,180 | 260,157 | 319,234 | 4,030,856 | 2,704,550 | 270,294 | 1,511,390 | 1,405,192 | 122,285 | 8,134 |
| Total investments | 1,932,842,273 | 51,517,432 | 24,045,254 | 94,517,966 | 1,291,826,653 | 28,364,878 | 2,702,845 | 9,969,693 | 3,976,777 | 122,285 | 274,773 |
| Invested securities lending collateral | 160,208,231 | 4,876,679 | 2,130,576 | 12,773,349 | 252,579,982 | 3,712,159 | 351,653 | 1,207,200 | 362,606 | - | 29,587 |
| Investment income receivable | 4,507,616 | 107,449 | 53,879 | 301,077 | 8,772,683 | 122,150 | 28,993 | 59,147 | 7,507 | - | 90 |
| Operating cash | 51,851 | - | - | - | 26,046 | 869 | (69) | 379 | 95 | (33) | (66) |
| Miscellaneous receivable | 2,247 | - | - | - | 1,569 | 35 | 3 | 12 | 3 | - | - |
| Due from other state agency | 13 | - | - | - | 9 | - | - | - | - | - | - |
| Total assets | 2,097,612,231 | 56,501,560 | 26,229,709 | 107,592,392 | 1,553,206,942 | 32,200,091 | 3,083,425 | 11,236,431 | 4,346,988 | 122,252 | 304,384 |
| Liabilities: | | | | | | | | | | | |
| Investment expenses payable | 3,139,743 | 78,118 | 37,961 | 119,314 | 648,030 | 20,419 | 1,966 | 6,894 | 2,119 | - | 225 |
| Securities lending collateral | 160,208,231 | 4,876,679 | 2,130,576 | 12,773,349 | 252,579,982 | 3,712,159 | 351,653 | 1,207,200 | 362,606 | - | 29,587 |
| Accounts payable | 9,342 | - | - | - | 6,523 | 144 | 14 | 50 | 12 | 1 | 1 |
| Accrued expenses | 20,042 | - | - | - | 14,310 | 308 | 31 | 111 | 22 | 1 | 3 |
| Miscellaneous payable | - | 1,208 | 562 | 2,251 | - | - | - | - | - | - | - |
| Due to other state agency | 705 | - | - | - | 492 | 11 | 1 | 4 | 1 | - | - |
| Total liabilities | 163,378,063 | 4,956,005 | 2,169,099 | 12,894,914 | 253,249,337 | 3,733,041 | 353,665 | 1,214,259 | 364,760 | 2 | 29,816 |
| Net assets held for external investment pool participants | \$ 1,934,234,168 | \$ 51,545,555 | \$ 24,060,610 | \$ 94,697,478 | \$ 1,299,957,605 | \$ 28,467,050 | \$ 2,729,760 | \$ 10,022,172 | \$ 3,982,228 | \$ 122,250 | \$ 274,568 |
| Each participant unit is valued at \$1.00 | | | | | | | | | | | |
| Participant units outstanding | 1,934,234,168 | 51,545,555 | 24,060,610 | 94,697,478 | 1,299,957,605 | 28,467,050 | 2,729,760 | 10,022,172 | 3,982,228 | 122,250 | 274,568 |

The accompanying notes are an integral part of these statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
Combining Statement of Net Assets-Investment Trust Funds
Fiduciary Funds

As of June 30, 2007

| | Insurance Pool Participants | | | | | | | | | | |
|---|-----------------------------|------------------------------|---------------------------------|---|----------------------|---------------------------|--------------------------------------|-------------------|------------------------------|-------------------------------|------------------|
| | Risk Management | Risk Management Workers Comp | ND Association of Counties Fund | ND Association of Counties Program Savings Fund | PERS Group Insurance | Budget Stabilization Fund | City of Bismarck Deferred Sick Leave | Health Care Trust | City of Fargo FargoDome Fund | Individual Investment Account | Total |
| Assets: | | | | | | | | | | | |
| Investments: | | | | | | | | | | | |
| Equities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 29,149,500 | \$ 29,149,500 |
| Equity pool | 1,099,925 | 1,598,025 | 679,016 | 389,660 | - | - | 255,461 | - | 6,151,429 | - | 1,501,115,243 |
| Fixed income | - | - | - | - | - | - | - | - | - | 15,383,953 | 15,383,953 |
| Fixed income pool | 2,364,722 | 2,492,774 | 477,335 | 419,158 | - | 68,136,288 | 529,818 | - | 5,827,987 | - | 1,707,756,245 |
| Real estate pool | - | - | - | - | - | - | - | - | - | - | 205,201,801 |
| Alternative Investments | - | - | - | - | - | - | - | - | - | - | 85,898,100 |
| Cash and cash pool | 185,019 | 127,114 | 60,947 | 43,033 | 4,057,137 | 30,885,108 | 40,584 | 2,209,944 | 125,061 | - | 68,344,985 |
| Total investments | 3,649,666 | 4,217,913 | 1,217,298 | 851,851 | 4,057,137 | 99,021,396 | 825,863 | 2,209,944 | 12,104,477 | 44,533,453 | 3,612,849,827 |
| Invested securities lending collateral | 500,061 | 543,408 | 107,468 | 141,155 | - | - | 119,873 | - | 1,404,741 | - | 441,048,728 |
| Investment income receivable | 48,522 | 6,615 | 874 | 598 | - | 854,102 | 1,196 | - | 8,286 | 420,924 | 15,301,708 |
| Operating cash | 167 | 355 | - | - | - | 2,074 | - | 304 | - | - | 81,972 |
| Miscellaneous receivable | 5 | 5 | - | - | - | 122 | - | 10 | - | - | 4,011 |
| Due from other state agency | - | - | - | - | - | 1 | - | - | - | - | 23 |
| Total assets | 4,198,421 | 4,768,296 | 1,325,640 | 993,604 | 4,057,137 | 99,877,695 | 946,932 | 2,210,258 | 13,517,504 | 44,954,377 | 4,069,286,269 |
| Liabilities: | | | | | | | | | | | |
| Investment expenses payable | 2,497 | 3,092 | 1,040 | 673 | - | - | 584 | - | 9,937 | 36,690 | 4,109,302 |
| Securities lending collateral | 500,061 | 543,408 | 107,468 | 141,155 | - | - | 119,873 | - | 1,404,741 | - | 441,048,728 |
| Accounts payable | 21 | 21 | - | - | - | 505 | - | 42 | - | - | 16,676 |
| Accrued expenses | 45 | 45 | - | - | - | 1,149 | - | 164 | - | - | 36,231 |
| Miscellaneous payable | - | - | 250 | 250 | 250 | - | 250 | - | 264 | 1,056 | 6,341 |
| Due to other state agency | 1 | 2 | - | - | - | 38 | - | 3 | - | - | 1,258 |
| Total liabilities | 502,625 | 546,568 | 108,758 | 142,078 | 250 | 1,692 | 120,707 | 209 | 1,414,942 | 37,746 | 445,218,536 |
| Net assets held for external investment pool participants | \$ 3,695,796 | \$ 4,221,728 | \$ 1,216,882 | \$ 851,526 | \$ 4,056,887 | \$ 99,876,003 | \$ 826,225 | \$ 2,210,049 | \$ 12,102,562 | \$ 44,916,631 | \$ 3,624,067,733 |
| Each participant unit is valued at \$1.00 | | | | | | | | | | | |
| Participant units outstanding | 3,695,796 | 4,221,728 | 1,216,882 | 851,526 | 4,056,887 | 99,876,003 | 826,225 | - 2,210,049 | 12,102,562 | 44,916,631 | 3,624,067,733 |

The accompanying notes are an integral part of these statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
Combining Statement of Changes in Net Assets-Investment Trust Funds
Fiduciary Funds

For the Year Ended June 30, 2008

| | Pension Pool Participants | | | | | Insurance Pool Participants | | | | | |
|---|------------------------------------|-------------------------------------|-----------------------------------|-----------------------------|-------------------------------------|--------------------------------|----------------------|---------------|--|---------------------------------|-------------------|
| | Public Employees Retirement System | Bismarck City Employee Pension Plan | Bismarck City Police Pension Plan | Job Service of North Dakota | City of Fargo Employee Pension Plan | Workforce Safety and Insurance | State Fire & Tornado | State Bonding | Petroleum Tank Release Compensation Fund | Insurance Regulatory Trust Fund | Veterans Cemetery |
| Additions: | | | | | | | | | | | |
| Investment income: | | | | | | | | | | | |
| Net change in fair value of investments | \$ (133,303,450) | \$ (2,969,501) | \$ (1,541,978) | \$ (2,847,451) | \$ (2,060,774) | \$ (38,116,867) | \$ (1,888,307) | \$ (199,930) | \$ (700,200) | \$ (162,849) | \$ - |
| Interest, dividends and other income | 43,867,012 | 1,396,664 | 610,805 | 2,133,511 | 357,768 | 50,628,924 | 1,011,901 | 100,393 | 356,171 | 122,260 | 1,479 |
| | (89,436,438) | (1,572,837) | (931,173) | (713,940) | (1,703,006) | 12,512,057 | (876,406) | (99,537) | (344,029) | (40,589) | 1,479 |
| Less investment expense | 11,257,255 | 330,632 | 147,621 | 622,355 | 138,325 | 4,439,530 | 86,491 | 8,570 | 28,760 | 8,294 | - |
| Net investment income | (100,693,693) | (1,903,469) | (1,078,794) | (1,336,295) | (1,841,331) | 8,072,527 | (962,897) | (108,107) | (372,789) | (48,883) | 1,479 |
| Securities lending activity: | | | | | | | | | | | |
| Securities lending income | 3,485,257 | 104,911 | 45,443 | 284,811 | 14,215 | 7,884,760 | 87,976 | 8,462 | 28,897 | 8,075 | - |
| Less securities lending expenses | 3,123,166 | 94,265 | 40,768 | 258,635 | 10,574 | 7,101,126 | 79,170 | 7,594 | 25,948 | 7,279 | - |
| Net securities lending income | 362,091 | 10,646 | 4,675 | 26,176 | 3,641 | 783,634 | 8,806 | 868 | 2,949 | 796 | - |
| Total additions | (100,331,602) | (1,892,823) | (1,074,119) | (1,310,119) | (1,837,690) | 8,856,161 | (954,091) | (107,239) | (369,840) | (48,087) | 1,479 |
| Deductions: | | | | | | | | | | | |
| Administrative expenses | 190,508 | - | - | - | - | 118,294 | 2,398 | 993 | 981 | 994 | 46 |
| Net change in net assets resulting from operations | (100,522,110) | (1,892,823) | (1,074,119) | (1,310,119) | (1,837,690) | 8,737,867 | (956,489) | (108,232) | (370,821) | (49,081) | 1,433 |
| Unit transactions at net asset value of \$1 per unit: | | | | | | | | | | | |
| Purchase of units | 3,208,999 | - | - | - | 31,807,740 | 4,000,000 | 9,500,000 | - | - | 3,500,000 | 1,033 |
| Redemption of units | (26,165,000) | - | - | (3,473,103) | (350,000) | (55,000,000) | (11,350,000) | (80,000) | (1,110,000) | (3,350,000) | (124,716) |
| Net change in net assets and units resulting from unit transactions | (22,956,001) | - | - | (3,473,103) | 31,457,740 | (51,000,000) | (1,850,000) | (80,000) | (1,110,000) | 150,000 | (123,683) |
| Total change in net assets | (123,478,111) | (1,892,823) | (1,074,119) | (4,783,222) | 29,620,050 | (42,262,133) | (2,806,489) | (188,232) | (1,480,821) | 100,919 | (122,250) |
| Net assets: | | | | | | | | | | | |
| Beginning of year | 1,934,234,168 | 51,545,555 | 24,060,610 | 94,697,478 | - | 1,299,957,605 | 28,467,050 | 2,729,760 | 10,022,172 | 3,982,228 | 122,250 |
| End of year | \$ 1,810,756,057 | \$ 49,652,732 | \$ 22,986,491 | \$ 89,914,256 | \$ 29,620,050 | \$ 1,257,695,472 | \$ 25,660,561 | \$ 2,541,528 | \$ 8,541,351 | \$ 4,083,147 | \$ - |

The accompanying notes are an integral part of these statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
Combining Statement of Changes in Net Assets-Investment Trust Funds
Fiduciary Funds

For the Year Ended June 30, 2008

| | Insurance Pool Participants | | | | | | | | | | | |
|---|-------------------------------|--------------------|------------------------------------|---------------------------------------|--|----------------------------|---------------------------------|---|-------------------------|---------------------------------------|----------------------------------|------------------|
| | Cultural Endowment Fund | Risk Management | Risk Management Workers Comp | ND Association of Counties Fund | ND Association of Counties Program Savings Fund | PERS Group Insurance | Budget Stabilization Fund | City of Bismarck Deferred Sick Leave | Health Care Trust | City of Fargo FargoDome Fund | Individual Investment Account | Total |
| Additions: | | | | | | | | | | | | |
| Investment income: | | | | | | | | | | | | |
| Net change in fair value of investments | \$ (29,699) | \$ (231,219) | \$ (305,448) | \$ (127,524) | \$ (75,391) | \$ - | \$ (8,591,387) | \$ (57,118) | \$ - | \$ (1,474,491) | \$ (7,701,312) | \$ (202,384,896) |
| Interest, dividends and other income | 9,101 | 144,326 | 152,814 | 38,236 | 29,646 | 334,983 | 8,845,339 | 33,570 | 76,044 | 492,384 | 1,338,932 | 112,082,263 |
| | (20,598) | (86,893) | (152,634) | (89,288) | (45,745) | 334,983 | 253,952 | (23,548) | 76,044 | (982,107) | (6,362,380) | (90,302,633) |
| Less investment expense | 1,132 | 11,757 | 12,136 | 5,148 | 3,861 | 1,000 | 115,864 | 3,835 | - | 54,510 | 110,942 | 17,388,018 |
| | | | | | | | | | | | | |
| Net investment income | (21,730) | (98,650) | (164,770) | (94,436) | (49,606) | 333,983 | 138,088 | (27,383) | 76,044 | (1,036,617) | (6,473,322) | (107,690,651) |
| | | | | | | | | | | | | |
| Securities lending activity: | | | | | | | | | | | | |
| Securities lending income | 755 | 12,713 | 13,970 | 3,474 | 2,631 | - | - | 2,924 | - | 40,244 | - | 12,029,518 |
| Less securities lending expenses | 673 | 11,476 | 12,601 | 3,094 | 2,356 | - | - | 2,624 | - | 35,649 | - | 10,816,998 |
| | | | | | | | | | | | | |
| Net securities lending income | 82 | 1,237 | 1,369 | 380 | 275 | - | - | 300 | - | 4,595 | - | 1,212,520 |
| | | | | | | | | | | | | |
| Total additions | (21,648) | (97,413) | (163,401) | (94,056) | (49,331) | 333,983 | 138,088 | (27,083) | 76,044 | (1,032,022) | (6,473,322) | (106,478,131) |
| | | | | | | | | | | | | |
| Deductions: | | | | | | | | | | | | |
| Administrative expenses | 434 | 990 | 989 | - | - | - | 15,658 | - | 979 | - | - | 333,264 |
| | | | | | | | | | | | | |
| Net change in net assets resulting from operations | (22,082) | (98,403) | (164,390) | (94,056) | (49,331) | 333,983 | 122,430 | (27,083) | 75,065 | (1,032,022) | (6,473,322) | (106,811,395) |
| | | | | | | | | | | | | |
| Unit transactions at net asset value of \$1 per unit: | | | | | | | | | | | | |
| Purchase of units | 16,500 | - | - | - | - | 157,000,000 | 100,527,369 | - | - | 5,000,000 | 1,537,000 | 316,098,641 |
| Redemption of units | - | - | (1,000,000) | - | - | (157,000,000) | (1,688,532) | - | - | - | - | (260,691,351) |
| | | | | | | | | | | | | |
| Net change in net assets and units resulting from unit transactions | 16,500 | - | (1,000,000) | - | - | - | 98,838,837 | - | - | 5,000,000 | 1,537,000 | 55,407,290 |
| | | | | | | | | | | | | |
| Total change in net assets | (5,582) | (98,403) | (1,164,390) | (94,056) | (49,331) | 333,983 | 98,961,267 | (27,083) | 75,065 | 3,967,978 | (4,936,322) | (51,404,105) |
| | | | | | | | | | | | | |
| Net assets: | | | | | | | | | | | | |
| Beginning of year | 274,568 | 3,695,796 | 4,221,728 | 1,216,882 | 851,526 | 4,056,887 | 99,876,003 | 826,225 | 2,210,049 | 12,102,562 | 44,916,631 | 3,624,067,733 |
| | | | | | | | | | | | | |
| End of year | \$ 268,986 | \$ 3,597,393 | \$ 3,057,338 | \$ 1,122,826 | \$ 802,195 | \$ 4,390,870 | \$ 198,837,270 | \$ 799,142 | \$ 2,285,114 | \$ 16,070,540 | \$ 39,980,309 | \$ 3,572,663,628 |

The accompanying notes are an integral part of these statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
Combining Statement of Changes in Net Assets-Investment Trust Funds
Fiduciary Funds

For the Year Ended June 30, 2007

| | Pension Pool Participants | | | | Insurance Pool Participants | | | | | |
|---|---|---|---|-----------------------------------|--------------------------------------|----------------------------|------------------|---|---------------------------------|----------------------|
| | Public Employees Retirement System | Bismarck City Employee Pension Plan | Bismarck City Police Pension Plan | Job Service of North Dakota | Workforce Safety and Insurance | State Fire & Tornado | State Bonding | Petroleum Tank Release Compensation Fund | Insurance Regulatory Data | Veterans Cemetery |
| Additions: | | | | | | | | | | |
| Investment income: | | | | | | | | | | |
| Net change in fair value of investments | \$ 285,031,437 | \$ 6,407,926 | \$ 3,189,234 | \$ 11,691,612 | \$ 75,378,694 | \$ 2,215,277 | \$ 225,746 | \$ 775,170 | \$ 145,567 | \$ - |
| Interest, dividends and other income | 43,845,522 | 1,381,274 | 599,580 | 2,325,117 | 49,231,820 | 1,075,299 | 107,480 | 376,839 | 101,231 | 5,954 |
| | 328,876,959 | 7,789,200 | 3,788,814 | 14,016,729 | 124,610,514 | 3,290,576 | 333,226 | 1,152,009 | 246,798 | 5,954 |
| Less investment expense | 9,300,130 | 256,348 | 118,932 | 416,599 | 3,695,924 | 69,949 | 6,898 | 23,457 | 4,640 | - |
| Net investment income | 319,576,829 | 7,532,852 | 3,669,882 | 13,600,130 | 120,914,590 | 3,220,627 | 326,328 | 1,128,552 | 242,158 | 5,954 |
| Securities lending activity: | | | | | | | | | | |
| Securities lending income | 8,237,008 | 253,234 | 109,393 | 679,120 | 14,913,431 | 235,390 | 23,798 | 77,211 | 14,277 | - |
| Less securities lending expenses | 7,907,265 | 243,483 | 104,992 | 660,454 | 14,539,360 | 227,566 | 23,012 | 74,601 | 13,738 | - |
| Net securities lending income | 329,743 | 9,751 | 4,401 | 18,666 | 374,071 | 7,824 | 786 | 2,610 | 539 | - |
| Total additions | 319,906,572 | 7,542,603 | 3,674,283 | 13,618,796 | 121,288,661 | 3,228,451 | 327,114 | 1,131,162 | 242,697 | 5,954 |
| Deductions: | | | | | | | | | | |
| Administrative expenses | 171,629 | - | - | - | 110,676 | 2,422 | 1,000 | 1,000 | 1,000 | 168 |
| Net change in net assets resulting from operations | 319,734,943 | 7,542,603 | 3,674,283 | 13,618,796 | 121,177,985 | 3,226,029 | 326,114 | 1,130,162 | 241,697 | 5,786 |
| Unit transactions at net asset value of \$1 per unit: | | | | | | | | | | |
| Purchase of units | - | - | - | - | 4,500,000 | 2,400,000 | - | 100,000 | 2,600,000 | 18,686 |
| Redemption of units | (20,410,000) | - | - | (3,261,717) | (26,500,000) | (1,725,000) | (300,000) | (500,000) | (2,550,000) | (5,000) |
| Net change in net assets and units resulting from unit transactions | (20,410,000) | - | - | (3,261,717) | (22,000,000) | 675,000 | (300,000) | (400,000) | 50,000 | 13,686 |
| Total change in net assets | 299,324,943 | 7,542,603 | 3,674,283 | 10,357,079 | 99,177,985 | 3,901,029 | 26,114 | 730,162 | 291,697 | 19,472 |
| Net assets: | | | | | | | | | | |
| Beginning of year | 1,634,909,225 | 44,002,952 | 20,386,327 | 84,340,399 | 1,200,779,620 | 24,566,021 | 2,703,646 | 9,292,010 | 3,690,531 | 102,778 |
| End of year | \$ 1,934,234,168 | \$ 51,545,555 | \$ 24,060,610 | \$ 94,697,478 | \$ 1,299,957,605 | \$ 28,467,050 | \$ 2,729,760 | \$ 10,022,172 | \$ 3,982,228 | \$ 122,250 |

The accompanying notes are an integral part of these statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
Combining Statement of Changes in Net Assets-Investment Trust Funds
Fiduciary Funds

For the Year Ended June 30, 2007

| | Insurance Pool Participants | | | | | | | | | | | |
|---|-------------------------------|--------------------|------------------------------------|---------------------------------------|--|----------------------------|---------------------------------|---|-------------------------|---------------------------------------|----------------------------------|------------------|
| | Cultural Endowment Fund | Risk Management | Risk Management Workers Comp | ND Association of Counties Fund | ND Association of Counties Program Savings Fund | PERS Group Insurance | Budget Stabilization Fund | City of Bismarck Deferred Sick Leave | Health Care Trust | City of Fargo FargoDome Fund | Individual Investment Account | Total |
| Additions: | | | | | | | | | | | | |
| Investment income: | | | | | | | | | | | | |
| Net change in fair value of investments | \$ 27,678 | \$ 243,237 | \$ 319,237 | \$ 100,031 | \$ 55,757 | \$ - | \$ - | \$ 56,893 | \$ - | \$ 1,043,035 | \$ 4,926,308 | \$ 391,832,839 |
| Interest, dividends and other income | 8,158 | 148,090 | 146,847 | 29,240 | 21,745 | 444,207 | 4,989,847 | 31,863 | 506,858 | 339,243 | 1,323,684 | 107,039,898 |
| | 35,836 | 391,327 | 466,084 | 129,271 | 77,502 | 444,207 | 4,989,847 | 88,756 | 506,858 | 1,382,278 | 6,249,992 | 498,872,737 |
| Less investment expense | 889 | 8,593 | 9,851 | 3,908 | 2,710 | 1,000 | - | 3,014 | - | 29,827 | 128,097 | 14,080,766 |
| Net investment income | 34,947 | 382,734 | 456,233 | 125,363 | 74,792 | 443,207 | 4,989,847 | 85,742 | 506,858 | 1,352,451 | 6,121,895 | 484,791,971 |
| Securities lending activity: | | | | | | | | | | | | |
| Securities lending income | 1,632 | 32,833 | 33,420 | 6,646 | 4,935 | - | - | 7,590 | - | 76,355 | - | 24,706,273 |
| Less securities lending expenses | 1,571 | 31,970 | 32,538 | 6,384 | 4,761 | - | - | 7,346 | - | 74,278 | - | 23,953,319 |
| Net securities lending income | 61 | 863 | 882 | 262 | 174 | - | - | 244 | - | 2,077 | - | 752,954 |
| Total additions | 35,008 | 383,597 | 457,115 | 125,625 | 74,966 | 443,207 | 4,989,847 | 85,986 | 506,858 | 1,354,528 | 6,121,895 | 485,544,925 |
| Deductions: | | | | | | | | | | | | |
| Administrative expenses | 362 | 1,000 | 1,000 | - | - | - | 8,860 | - | 1,179 | - | - | 300,296 |
| Net change in net assets resulting from operations | 34,646 | 382,597 | 456,115 | 125,625 | 74,966 | 443,207 | 4,980,987 | 85,986 | 505,679 | 1,354,528 | 6,121,895 | 485,244,629 |
| Unit transactions at net asset value of \$1 per unit: | | | | | | | | | | | | |
| Purchase of units | 38,659 | 1,000,000 | - | 300,000 | 250,000 | 127,439,764 | - | - | - | 1,000,000 | 1,230,000 | 140,877,109 |
| Redemption of units | (17,289) | (950,000) | - | - | - | (125,750,000) | (4,981,500) | - | (17,826,397) | - | - | (204,776,903) |
| Net change in net assets and units resulting from unit transactions | 21,370 | 50,000 | - | 300,000 | 250,000 | 1,689,764 | (4,981,500) | - | (17,826,397) | 1,000,000 | 1,230,000 | (63,899,794) |
| Total change in net assets | 56,016 | 432,597 | 456,115 | 425,625 | 324,966 | 2,132,971 | (513) | 85,986 | (17,320,718) | 2,354,528 | 7,351,895 | 421,344,835 |
| Net assets: | | | | | | | | | | | | |
| Beginning of year | 218,552 | 3,263,199 | 3,765,613 | 791,257 | 526,560 | 1,923,916 | 99,876,516 | 740,239 | 19,530,767 | 9,748,034 | 37,564,736 | 3,202,722,898 |
| End of year | \$ 274,568 | \$ 3,695,796 | \$ 4,221,728 | \$ 1,216,882 | \$ 851,526 | \$ 4,056,887 | \$ 99,876,003 | \$ 826,225 | \$ 2,210,049 | \$ 12,102,562 | \$ 44,916,631 | \$ 3,624,067,733 |

The accompanying notes are an integral part of these statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension and Investment Trust Funds – Schedule of Administrative Expenses

For the Years Ended June 30, 2008 and 2007

| | Pension Trust | | Investment Trust | |
|--|---------------|--------------|------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Salaries and wages: | | | | |
| Salaries and wages | \$ 519,997 | \$ 489,246 | \$ 289,018 | \$ 268,569 |
| Fringe benefits | 168,629 | 145,156 | 73,570 | 66,958 |
| Total salaries and wages | 688,626 | 634,402 | 362,588 | 335,527 |
| Operating expenses: | | | | |
| Information services | 66,267 | 59,907 | 8,371 | 9,936 |
| Intergovernmental services | 6,226 | 6,008 | 2,075 | 2,003 |
| Professional fees | 202,373 | 203,481 | 33,821 | 21,878 |
| Rent of building space | 52,026 | 51,221 | 21,845 | 21,327 |
| Lease/rent of office equipment | (413) | (1,290) | 797 | 3,025 |
| Mailing services and postage | 40,915 | 41,700 | 17,782 | 16,677 |
| Travel and lodging | 31,975 | 28,582 | 13,906 | 12,839 |
| Printing | 14,164 | 26,566 | 6,506 | 5,844 |
| Office supplies | 3,592 | 7,608 | 805 | 1,407 |
| Professional development | 12,635 | 14,798 | 10,117 | 1,065 |
| Outside services | 7,594 | 9,884 | 2,719 | 5,686 |
| Small office equipment expense | 4,110 | 12,224 | 570 | 3,172 |
| Miscellaneous fees | 6,175 | 2,533 | 3,187 | 2,159 |
| Resource and reference materials | 591 | 833 | 707 | 946 |
| Service contract - office equipment | - | 112 | - | 38 |
| IT contractual services | 102,791 | 102,129 | 585 | 181 |
| Repairs - office equipment | 443 | 169 | 133 | 12 |
| Insurance | 1,011 | 1,064 | 337 | 355 |
| Total operating expenses | 552,475 | 567,529 | 124,263 | 108,550 |
| Pension trust portion of investment program expenses | 153,587 | 143,782 | (153,587) | (143,782) |
| Depreciation | 244,833 | 246,348 | - | - |
| Total administrative expenditures | 1,639,521 | 1,592,061 | 333,264 | 300,295 |
| Capital assets | 11,441 | - | - | - |
| Capital lease payments - principal | 1,210 | 4,451 | - | - |
| Less - nonappropriated items: | | | | |
| Professional fees | 202,373 | 203,481 | 33,821 | 21,878 |
| Other operating fees paid under continuing appropriation | 12,798 | 13,964 | 24,156 | 25,094 |
| Depreciation | 244,833 | 246,348 | - | - |
| Accrual adjustments to employee benefits | 3,605 | (5,435) | (1,859) | (817) |
| Total nonappropriated items | 463,609 | 458,358 | 56,118 | 46,155 |
| Total appropriated expenditures | \$ 1,188,563 | \$ 1,138,154 | \$ 277,146 | \$ 254,140 |

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension Trust Fund – Schedule of Consultant Expenses

For the Years Ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---------------------------------|--------------------------|--------------------------|
| Actuary fees: | | |
| Gabriel, Roeder, Smith & Co. | <u>\$ 132,107</u> | <u>\$ 118,261</u> |
| Consulting fees: | | |
| Brady Martz & Associates, P.C. | 34,519 | 33,641 |
| Buck Consultants | - | 43,000 |
| Enterprise Solutions Inc. | - | 480 |
| Miriam Carver-Carver Governance | <u>2,345</u> | <u>-</u> |
| Total consulting fees | <u>36,864</u> | <u>77,121</u> |
| Disability consulting fees: | | |
| Dr. G.M. Lunn | <u>625</u> | <u>275</u> |
| Legal fees: | | |
| Calhoun Law Group P.C. | 634 | - |
| ND Attorney General | <u>32,144</u> | <u>8,304</u> |
| Total legal fees | <u>32,778</u> | <u>8,304</u> |
| Total consultant expenses | <u><u>\$ 202,374</u></u> | <u><u>\$ 203,961</u></u> |

Reconciliation of Consultant Expenses to Schedule of Administrative Expenses

| | <u>2008</u> | <u>2007</u> |
|---|--------------------------|--------------------------|
| Total professional services on schedule | \$ 202,373 | \$ 203,481 |
| Plus: | | |
| IT contractual services from ESI | <u>-</u> | <u>480</u> |
| Total consultant expenses | <u><u>\$ 202,373</u></u> | <u><u>\$ 203,961</u></u> |

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Schedule of Appropriations – Budget Basis

**Fiduciary Funds
July 1, 2007 to June 30, 2009 Biennium**

| | Approved 2007- 2009 Appropriation | 2007-2009 Appropriation Adjustment | Adjusted 2007- 2009 Appropriation | Fiscal 2008 Expenses | Unexpended Appropriations |
|--------------------|---|--|---|-------------------------|------------------------------|
| All Fund Types | | | | | |
| Salaries and wages | \$ 2,334,909 | \$ 18,228 | \$ 2,353,137 | \$ 1,049,470 | \$ 1,303,667 |
| Operating expenses | 935,999 | - | 935,999 | 404,798 | 531,201 |
| Contingency | <u>82,000</u> | <u>-</u> | <u>82,000</u> | <u>11,441</u> | <u>70,559</u> |
| Total | <u>\$ 3,352,908</u> | <u>\$ 18,228</u> | <u>\$ 3,371,136</u> | <u>\$ 1,465,709</u> | <u>\$ 1,905,427</u> |

Note: Only those expenses for which there are appropriations are included in this statement.

**Reconciliation of Administrative Expenses
to Appropriated Expenditures**

| | |
|--|---------------------|
| | <u>2008</u> |
| Administrative expenses as reflected in the financial statements | \$ 1,972,785 |
| Plus: | |
| Capital assets | 11,441 |
| Capital lease payments - principal | 1,210 |
| Less: | |
| Professional fees | (236,194) |
| Other operating fees paid under continuing appropriations* | (36,954) |
| Depreciation expense | (244,833) |
| Changes in annual leave and FICA payments | <u>(1,746)</u> |
| Total appropriated expenses | <u>\$ 1,465,709</u> |

* North Dakota Century Code 21-10-06.2 and 15-39.1-05.2 provide authorization for the continuing appropriation.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Special Comments Requested by the Legislative Audit and Fiscal Review Committee For the Year Ended June 30, 2008

June 30, 2008

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by auditors performing audits of state agencies. These items and our responses are as follows:

Audit Report Communications:

1. What type of opinion was issued on the financial statements?

An unqualified opinion was issued on the 2008 and 2007 financial statements.

2. Was there compliance with statutes, laws, rules, regulations under which the agency was created and is functioning?

Yes

3. Was internal control adequate and functioning effectively?

Yes

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No

5. Has action been taken on findings and recommendations included in prior year audit reports?

All findings from the previous year have been cleared.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.

No current year management letter.

Audit Committee Communications:

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.

None

2. Identify any significant accounting estimates, the process used by management conflicts of interest, any contingent liabilities, or any significant unusual transactions.

RIO utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Special Comments Requested by the Legislative Audit and Fiscal Review Committee

For the Year Ended June 30, 2008

3. Identify any significant audit adjustments.

None

4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matter that could be significant to the financial statements.

None

5. Identify any significant difficulties encountered in performing the audit.

None

6. Identify any major issues discussed with management prior to retention.

None

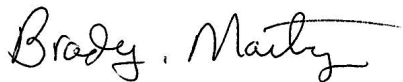
7. Identify any management consultations with other accountants about auditing and accounting matters.

None

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.

Based on the audit procedures performed, the Retirement and Investment Office's critical information technology system is the CPAS system. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the audit committee, management, the Legislative Audit and Fiscal Review Committee, and other state officials, and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.

October 13, 2008

October 13, 2008

Audit Committee
North Dakota Retirement and Investment Office
Bismarck, North Dakota

We have audited the basic financial statements, the combining and individual fund financial statements of the North Dakota Retirement and Investment Office for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 13, 2008. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

As stated in our engagement letter dated June 30, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of North Dakota Retirement and Investment Office. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of North Dakota Retirement and Investment Offices' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our proposal, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by North Dakota Retirement and Investment Office are described in Note 1 to the basic financial statements. Application of existing policies were not changed during 2008 or 2007, however there were changes to the policies that are described below under Impact of New Accounting Standards. We noted no transactions entered into by North Dakota Retirement and Investment Office during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the North Dakota Retirement and Investment Office that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. There were no significant audit adjustments.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the North Dakota Retirement and Investment Offices' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit. Rather, we received excellent cooperation on a timely basis from management and accounting personnel regarding information and client-prepared schedules that we requested.

This information is intended solely for the use of NDRIIO Audit Committee and management of the North Dakota Retirement and Investment Office and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



BRADY, MARTZ & ASSOCIATES, P.C.